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NEWS SUMMARY

GENERAL

Mugabe refuses ceasefire or Queen

Belgian franc remains weak

ULE IN LONDON

Export fears

Labour change

Blasphemy

Refugee ship

Poison probe

Premier move

Cost conscious

Briefly

EMS

GRD

ECU Divergence

Union declares war on labour law changes

Saudi find confirmed

Treasury Minister for U.S. talks on unitary taxation

Post Office loses £35m on telegram services

Bonn attacks EEC farms surplus policy

Imported cars take 56% of market

Egypt appeals for \$18.5bn to offset Arab boycott

BY ROGER MATTHEWS IN CAIRO

The Egyptian Government has predicted grave consequences for its economy as a result of the Arab boycott, and has appealed to the world's main industrialised nations to provide \$18.5bn over the next five years to prevent "delays in the progress of peace."

In a document sent to the seven leaders at last month's summit meeting of industrialised nations in Tokyo, the Government of President Anwar Sadat warned that Egypt's overall balance-of-payments deficit this year could climb to \$5.4bn, compared with \$1.9bn in 1978.

These revised projections for 1979 were based on three main assumptions stemming from the Arab boycott imposed after the peace treaty was signed with Israel.

While there is widespread agreement that the economy faces serious difficulties that may worsen in the next 12 months if no official action is taken, few economists estimated that the Arab boycott would lead to such dire consequences in the short term.

Mr. Sadat announced some months ago that he was launching a five-year \$15bn "Carter Plan" to assist Egypt's economic development, a figure that has now been increased by his Government by \$3.5bn.

Egypt received nearly \$2bn in all forms of aid last year, with the U.S. providing about half.

To demonstrate what Egypt is losing as a result of the cut-off in Arab aid, Cairo has also listed the amounts it has received since the 1973 war with Israel.

This includes \$3.7bn in direct aid from governments, concessional project loans from various Arab funds of \$725m, a \$2bn loan from the Gulf Organisation for the Development of Egypt, plus the \$2bn deposited at the Central Bank.

The decision by Saudi Arabia, Qatar and the United Arab Emirates to withdraw from the Arab Organisation for Industrialisation, the budding industry in which British and U.S. companies participate, would further cost Egypt the potential benefits of investments worth about \$1.5bn, according to the Sadat Government.

Post Office loses £35m on telegram services

BY JOHN LLOYD

The Post Office telegram services lost about £35m over the past financial year. Inland telegrams accounted for £10m of the loss and overseas telegrams £25m.

In the previous year inland telegrams lost £8.5m and overseas telegrams £26m.

The Post Office has committed itself to keep the service going in spite of the heavy losses. There has been a slight improvement in volume of inland telegram traffic—up from 3.2m in 1977-78 to 3.3m in 1978-79—but a fall in overseas traffic, from 13.9m to 12.8m.

Bonn attacks EEC farms surplus policy

BY JONATHAN CARR IN BONN

IN A new sign that support for reforming the Common Agricultural Policy is gaining ground in West Germany, Count Otto Lambsdorff, the Economics Minister, has criticised surplus agricultural production and suggested how the problem might be eased.

His comments are significant, not only because they were made before about 13,000 German farmers holding their national conference at Muenster this weekend, but because he has at last openly criticised aspects of a policy long defended by his party colleague, Herr Josef Ertl, the Agriculture Minister.

Both men are members of the small Free Democrat Party, whose leaders have for a long time held back from attacking the CAP publicly, so as not to complicate Herr Ertl's position.

However, it is now being recognised—even by Herr Ertl—that if surplus production continues to mount at its present rate, finance for the CAP will run out before long and the policy will collapse.

Count Lambsdorff agreed that farmers had a right to share in the general income improvement in West Germany. But he questioned whether this improvement should be as dependent on increases in farm prices as at present.

The market simply did not permit price increases in some key products, he said, and regulations could not function properly when more was being produced for sale into intervention at a guaranteed price than to match real demand.

He also warned that the EEC's agricultural export policy (under which surplus products are sold in other markets at subsidised prices) could damage prospects of successful talks between European nations and raw materials producers.

Count Lambsdorff said he seriously wondered whether direct income support for farmers with surplus products could not be introduced as a partial substitute for the present reliance on price increases.

This suggestion was promptly rejected by the German Farmers' Association, which insisted that price policy must remain the central instrument of agricultural income policy.

The association complained that following the recent EEC farm price decisions in Luxembourg, the position of the German farmer was more precarious than before.

Imported cars take 56% of market

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

IMPORTERS WON a record 56 per cent of the new car market in June, a month when many other records were shattered.

Official industry statistics show that total sales topped 200,000 for the first time in any month. At 200,172 they were 51 per cent up on June, 1978, and 29 per cent up on the previous peak of 155,484 in June, 1972.

As previously reported, the six months to June were the first half-year in which more than 1m new cars were registered.

Importers' market penetration reached a record 55.44 per cent in the half-year, up from 47 per cent at the same stage last year. The first-half total of 1,031,330 new cars registered was 19 per cent higher than in 1978, according to the figures published by the Society of Motor Manufacturers and Traders.

In June this year, "captive" imports by UK-based manufacturers reached 18.7 per cent of the market. Ford took a 12.76 per cent market share with cars from Belgium, West Germany, Ireland and Spain.

Cars assembled abroad totalled 25,554 out of the 52,874 Ford cars sold in June, or 48.3 per cent of the group's registrations.

Ford lost some of its market share in the month, with a 25.4 per cent penetration. The Fiesta and Cortina were short supply, possibly because of changes being made for the introduction of a "facelifted" Cortina in September.

Ford can usually count on selling 22,500 Cortinas a month. Continued on Back Page. Car registrations table Page 4.

Union declares war on labour law changes

BY ALAN PIKE, LABOUR CORRESPONDENT

GOVERNMENT proposals for changes in employment law, due to be outlined today, are guaranteed to run into immediate opposition from Britain's biggest union.

The executive of the Transport and General Workers' Union has unanimously approved a resolution for the union's conference which opens in Scarborough this morning urging the TUC to "mobilise maximum trade union resistance" to the proposed changes.

It pledges "full support for the strongest possible defence of basic trade union rights."

It is likely that the executive resolution, which accuses the Government of intending to "restrict trade union activity through legislative measures aimed to penalise the families of workers involved in industrial action," will be debated by delegates tomorrow.

The Government's intention to amend certain key areas of labour law was spelt out in the Conservative election manifesto. Today the Government is expected to outline its general thinking in a discussion paper from the Department of Employment.

This document will provide a basis for detailed consultations which Mr. James Prior, the Employment Secretary, is having with both sides of industry preparatory to the tabling of a Bill in the autumn.

The Government's document is unlikely to produce any great surprises in terms of either content or omissions. Action to contain secondary picketing, tight conditions for the introduction of future closed shops, with improved redress for the individual, and proposals for financial assistance to unions wishing to use secret ballots can be expected to be included.

The executive of the Transport and General Workers' Union is in a particularly strong position to know what to expect from the discussion paper. Mr. Harry Urwin, the union's deputy general secretary, is chairman of the TUC Employment Policy and Organisation Committee.

This committee has been involved in informal discussions with the Government and will be in the front line of the forthcoming debate on proposed changes.

Mr. Urwin said yesterday that the Conservative manifesto had made it clear that the Government wanted to reduce the bargaining power of unions, and the proposals were likely to produce a strong reaction from the TUC.

He hoped the Government would think carefully and "not get into a 1971 situation again."

In 1971 the last Conservative Industrial Relations Act met concerted resistance from the unions.



Mr. Harry Urwin: He hopes the Government will not get into a 1971 situation.

Treasury Minister for U.S. talks on unitary taxation

BY DAVID FREUD

MR. PETER REES, Minister of State to the Treasury, is to visit the U.S. in September for wide-ranging talks on unitary taxation, which some individual American states are applying to British companies.

The visit is the result of increasing agitation by UK companies in the last few weeks against the principle of unitary taxation, which assesses companies on the basis of a proportion of their worldwide income rather than local profits.

A group of 40 major British companies has called for the long-delayed U.S.-UK double tax treaty not to be considered by the Commons until there are firm moves in the U.S. to curb states' use of this method of taxation.

The Confederation of British Industry announced yesterday that it had written to the Chancellor, again expressing deep concern about unitary tax. It said that the proposed treaty would open the door to such taxation on UK companies in certain American States, such as California.

The Senate is expected to ratify the revised treaty today following recent approval by its Foreign Relations Committee.

The treaty has become involved in the unitary tax question because as originally drafted in 1975 it contained a clause preventing states applying this form of taxation to companies.

The clause was thrown out last summer by the Senate, and a revised text, in the form of a protocol, drafted.

If, as expected, this protocol is approved by the Senate, the Government plans to bring it before the Commons after the recess, which ends in mid-October. A full debate is likely, in view of the concern expressed by MPs.

In the meantime Mr. Rees will have visited the U.S., where he aims to look at four specific areas in the controversy over unitary taxation.

He will hold talks with the Federal authorities on prospects of legislation to curb the practice.

Secondly he will see senators in an attempt to establish the standing of the proposed Mat-

Reconciled

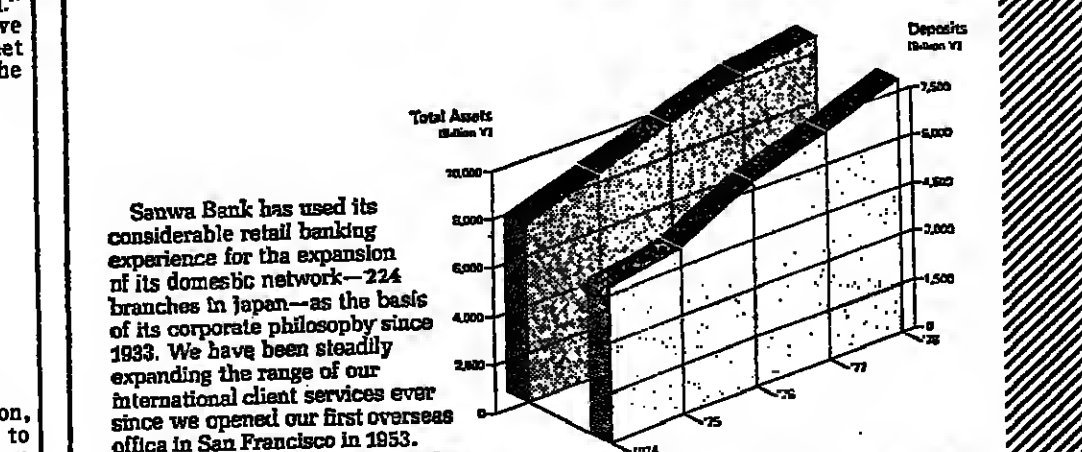
Mr. Derek Ralph, London manager of PQ Cable—a subsidiary of a French company—said that traffic had been falling for some time, and that the company was reconciled to losing its cable traffic.

It has created PQ Tele-Systems, a company which operates a telex bureau service, where there is considerable growth.

"We will leave the cable business with some regret, but it is a shrinking market. We appealed against the decision at the time, but the Post Office holds all the strings."

A monopoly goes on trial, Page 13

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CONTENTS

Post Office: A monopoly on trial 12

Computers: Bright future for machines that talk 13

Management: Calculated risk in electronics 9

Hustiman: A British closed shop case goes to Strasbourg 10

Editorial comment: East bloc rigidity; MPs pay 12

Lombard: Samuel Brittan on a strong case for doctrine 10

Appointments 14

Arts 14

Building Notes 14

Businessmen's Day 14

Company News 14

Consolidated 14

Government 14

International 14

Financial 14

Co. News 14

Labour News 14

Leader Page 12

Letters 12

Law 12

Mar and Air 12

Money & Exchange 12

Overseas News 12

Party, Diary 12

Racing 12

Share Information 20-21

Special 12

Sport 12

Television 12

Today's Events 13

TV and Radio 13

UK News 13

Unit Trusts 13

Weather 13

World Trade 13

Base Landing Fees 13

For latest Share Index phone 01-246 8039

OVERSEAS NEWS

Arafat talks anger Israel

BY PAUL LENDVAI IN VIENNA

A FIERCE ROW has broken out between Israel and Austria because of talks here over the weekend involving Chancellor Bruno Kreisky, Herr Willy Brandt, president of the Socialist International, and Mr. Yasser Arafat, leader of the Palestine Liberation Organisation.

Both Herr Brandt and Dr. Kreisky stressed yesterday that the meeting with Mr. Arafat was arranged in accordance with a resolution of the bureau of the Socialist International which last autumn authorised its president to establish contacts with the PLO.

Vienna is seen in Lebanon as a major victory for the PLO. Some sympathisers compared the talks to Mr. Arafat's appearance before the United Nations General Assembly in 1974.



Yasser Arafat - a major victory

New Italian Premier to be named today

By Rupert Cornwell in Rome

President Sandro Pertini will today name a new Prime Minister designate for Italy, after the weekend abandonment by Sig. Giulio Andreotti, the outgoing Premier, of his attempts to form a new Government.

DC-10 checks may result in resumption of flights

BY JOHN WYLES IN NEW YORK

EIGHT U.S. AIRLINES whose 138 DC-10s have been grounded since June 6 have begun a new round of inspections ordered by the Federal Aviation Administration (FAA) which, it is hoped, will clear the way for the aircraft to resume operations.

Flight simulator tests have reported that the wing in the effect of asymmetrical slats can be overcome, except at very low take-off speeds.

But it is being speculated that a mechanical braking system will be added to the mechanisms to provide an extra safeguard.

No ceasefire for Queen-Mugabe

BY OUR FOREIGN STAFF

MR. ROBERT MUGABE'S Mozambique-based wing of the Patriotic Front has said it will not observe a ceasefire during the Queen's visit to the Commonwealth Conference in Zambia.

against the Zambian people or security forces. The Queen is due to start her nine-day visit to Zambia on July 27 and the conference opens on August 1.

Merik Webster reports from Lagos: Results in Nigeria's senatorial elections were slow coming in yesterday, after heavy rain in the south disrupted Saturday's polling and hampered communications.

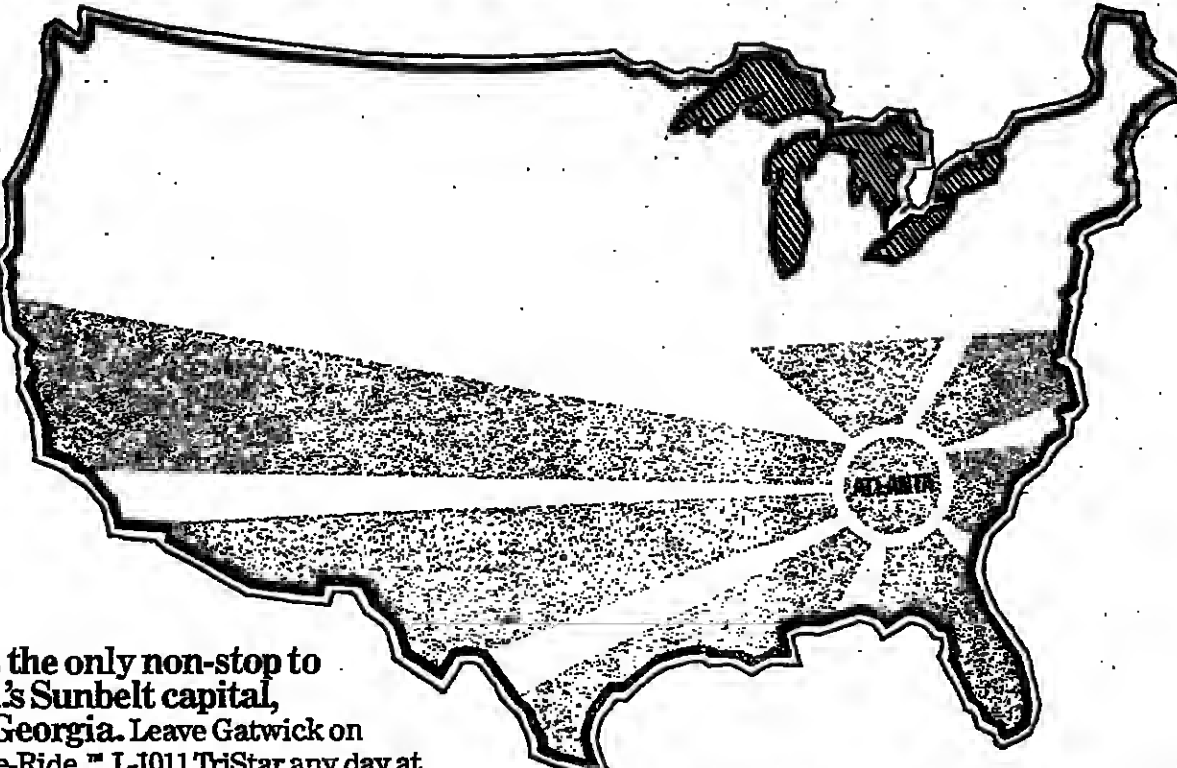
France strengthens links with Iraq

BY ROBERT MAUTHNER IN PARIS

THE OFFICIAL visit which M. Raymond Barre, the French Prime Minister, is at present paying to Iraq, is expected in Paris to lead to both closer economic and political relations with a country which is one of France's main oil suppliers after Saudi Arabia.

It is significant, too, that Barre is accompanied by a Michel Rocard, the former Prime Minister, who has been France's Atomic Energy Commission, which suggests a nuclear co-operation between the two countries is also an important item on the agenda of the talks.

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Strauss no easy opponent Schmidt warns party

BY JONATHAN CARR IN BONN

CHANCELLOR Helmut Schmidt has warned his party it could pay dearly if it underestimated Herr Franz-Josef Strauss, the opposition's new candidate for the Chancellorship in general elections next year.

policy statements—for example on foreign or union affairs. Herr Schmidt's comments reflect fears in the Government coalition camp that too many party workers may be inclined to write off Herr Strauss as a "bogey man" and leave him to make self-destructive mistakes.

Explosion highlights threat to Iran's oil pipelines

BY OUR OWN CORRESPONDENT

Iran's national oil company was unable to account yesterday for an explosion that ripped through an oil pipeline and wrecked a gas line and several other oil lines between Abadan and the export terminal of Bandar Mahshahr in the oil province of Khuzestan.

area and the major blaze was brought under control within an hour. Oil that had spilled in the desert continued to burn for 24 hours. No casualties were reported.

Budget protest strikes hit Pakistan cities

A GENERAL strike to protest at last month's Budget passed off in Pakistan yesterday without major incident, although many cities and towns were affected. Simon Henderson reports from Islamabad.

Elsewhere the strike, organised by the Pakistan National Alliance, which resigned from the Government in April, was less complete. Protesters at the bus-circles on fuel, cooking oil, and milk powder has already prompted President Zia to call a meeting of industrial leaders and economists today.



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Handwritten note: *July 10/1979*

U.S. hopes pact will bring rapid rise in China trade

BY DAVID BUCHAN IN WASHINGTON

U.S. TARIFFS on Chinese goods will drop sharply from the present average of 24 per cent to an average 5.5 per cent under the framework trade agreement signed over the weekend between the two countries. It would give Chinese exports to the most-favoured-nation or non-discriminatory tariff treatment in the U.S. market.

By contrast, tariff benefits for the U.S. will be minimal. Government officials in Washington say because China has no structured tariff code and U.S. exports to China are probably capital intensive enough to escape duties, even if it had.

But the U.S. sees gains for business in parts of the pact governing patents, trademarks, copyrights, allowing the U.S. to set up official and private trade offices in Peking, and letting U.S. companies compete in the Chinese market on an equal basis with their West European and Japanese competitors.

Mrs. Janita Krepis, the U.S. Commerce Secretary, who initiated the agreement with the Chinese in May, hailed it as a significant contribution to expanding U.S.-Chinese economic ties. Her department

estimates that, with the new agreement likely to come into effect early next year, total two-way U.S.-China trade could expand from around \$2bn this year to \$5bn by 1985.

Its estimate is much the balance of that trade will continue to run in favour of the U.S., with U.S. exports reaching \$3.5bn by 1985 and Chinese exports to the U.S. \$1.5bn. That is in the context of the persistent deficit which the U.S. has run for several years with the rest of the world.

However, the Carter Administration has still not disclosed when it will submit the China trade pact to Congress for approval. President Carter has to ask Congress to waive in the case of China the Jackson-Vanik amendment that bars U.S. tariff and Export-Import Bank credit concessions to Communist countries that do not permit free emigration.

While there is little doubt in the Administration or on Capitol Hill that China's emigration policy is liberal enough for that amendment to be waived, Mr. Carter may want to move cautiously to avoid irritating the Soviet Union, to which he had earlier promised

to try to grant most-favoured-nation status.

The Soviet Union has offered no assurances so far to the U.S. on its emigration policy. But it might take offence at the U.S.-China trade agreement and this could prove politically awkward as the SALT debate starts in the U.S. Senate.

Assuming the Jackson-Vanik amendment is waived for China by Congress, which will have 60 days to consider the trade agreement once it is formally submitted by the Administration, "the Export-Import" Bank will be free to offer credit and loans on export deals to China. But officials say this will be done on a case-by-case basis. The U.S. will not be offering Peking a general government-backed line of credit, as many West European countries have done.

More than half U.S. exports to China this year will be agricultural, between \$700m and \$900m, the commerce department estimates. But it also sets strong export potential in several industrial and construction sectors, such as hotels, iron ore and non-ferrous metal mining, oil, power, coal and transport equipment.

U.S. jeans companies seek Soviet plant deal

By Stewart Fleming in New York

THE THREE leading U.S. blue jeans manufacturers have been asked to bid on a contract to help Russia build a plant which would supply the Soviet Union with a form of clothing once worn by that country as symbolic of Western decadence.

The Russians do not appear to be interested in having a factory built to produce jeans with the names of Halston, Gloria Vanderbilt or Anne Klein plastered on them. Instead Levi Strauss of San Francisco, Blue Bell of Greensboro, which makes Wrangler jeans, and the VF Corporation, which sells under the Lee Label, are the Soviet choices. Their wares sell at around \$20 per pair.

The manufacturers are not releasing details of their negotiations but all seem agreed that there is, as a Blue Bell official put it, tremendous demand for blue jeans in the USSR.

Issues which will need to be resolved, however, are who will operate the new plant and who will own it. The market may be big, but U.S. corporations are always anxious to see the bottom line.

ISRAEL'S TRADE

Learning to live with a deficit

BY MARGARET HUGHES, RECENTLY IN TEL AVIV

AFTER INFLATION the problem of reducing its widening trade deficit is Israel's major economic preoccupation and one which the country has lived with since its establishment.

Israel succeeded in reducing the visible trade gap during 1976 and 1977 bringing the deficit down to \$1.73bn (£779m) from its 1975 peak of \$2.28bn. But its visible trade deficit was up again last year to \$1.89bn, and was markedly higher in the first quarter of this year.

Mr. Meir Livnat, director of the foreign trade division of Israel's Ministry of Industry, Trade and Tourism, acknowledges that the widening deficit is a problem which Israel will have to live with "for many, many years." There is little prospect of reducing the deficit in the foreseeable future. The best Israel can hope to do is to minimise the increase so that the trade deficit does not become an insurmountable problem in the longer term.

Last year visible exports totalled \$3.92bn representing an increase of 25 per cent on the previous year, when the growth in exports was higher, at 32 per cent. In real terms, however, the increase of 25 per cent on the (excluding diamonds) was only 2 per cent compared with an average gain of 17 per cent in the two preceding years.

Imports, meanwhile, rose 19 per cent last year to \$5.86bn against an increase of 18 per cent in 1977. Excluding diamonds and defence imports, the growth in volume amounted to a minimal increase in 1977 and an actual decline in 1978.

There has been a further widening of the visible deficit during the first quarter of this

year of 59 per cent to \$789m, with imports showing a further increase of 20 per cent to \$1.8bn against a rise in imports of only 11 per cent to \$1.03bn.

Given the structure of Israel's imports there is little scope for tackling the problem by reducing imports. Some 25 per cent of the import bill goes towards defence. Last year this was up nearly 48 per cent and, even given the peace treaty, with Egypt, this sector will continue to be a major drain on resources.

In addition Israel has to import virtually all its raw materials. Oil and minerals account for some 12 to 13 per cent of imports and will have increased considerably following the latest OPEC price increases.

Capital goods imports are another key element in the imports bill as Israel strives to step up its industrial development to minimise its traditional dependence on agriculture, all the more so since industry has, of necessity, to be capital-intensive because of the shortage of labour.

Capital goods imports increased by nearly 30 per cent last year to account for 15 per cent of the total.

A rapidly expanding import sector is consumer goods. Last year these imports were up 22 per cent to \$420m, but in the current year they are expected to show an increase of well over 80 per cent. This is already in evidence, in the first quarter, when a rise of 89 per cent reflected the consumer spending boom provoked by the rush to beat ever rising prices.

Furthermore, when the present Government came to power it liberalised imports as part of its new economic policy.

Israel's agreement with the EEC aims at eliminating all duties on imports from the EEC by 1988.

Thus the main effort to reduce the trade deficit is being directed at increasing exports.

Indeed, the narrowing of the trade gap which was achieved during 1976-77 was largely the result of stepping up exports. The value of exports now covers some 66 per cent of imports against only 45 per cent in 1975.

Increasing emphasis also is being placed on changing the structure of exports. Citrus, which 30 years ago accounted for 65 per cent of the total, today accounts for only some 5.6 per cent while other agricultural goods account for only another 7 per cent.

The potential for increasing exports further is limited by the scarcity of cultivable land and water. Efforts have, however, been made to diversify into more lucrative export earners such as flowers and out-of-season fruit and vegetables. A further problem on the horizon is the increased competition which Israel will face in its main market, the EEC, when countries such as Spain, Greece and Portugal are members.

About a third of Israel's exports to the EEC are agricultural products.

Israel is attempting to renegotiate its agreement reached with the EEC in 1975 so that its agricultural produce will enjoy the same free access as these new members. With a widening trade gap with the EEC—it imports about three times what it exports to the EEC—Israel would also like to step up its industrial exports which, despite having tariff-free access to the EEC, are in

Israel's view, hampered by non-tariff barriers.

Such has been the change in the structure of Israel's exports that industrial goods now account for 53 per cent of the total. This excludes polished diamonds which at \$1.32bn last year account for 36 per cent of exports but whose net contribution to the balance of payments is far less as the rough diamonds are imported.

It is within the industrial sector that Israel now sees its main export potential and in the high technology, high added-value end of the market.

Israel's main markets are the EEC and U.S., which respectively account for 36 per cent and 19 per cent of total Israeli exports. Israeli goods are geared to the needs of these two main markets, and Israel is anxious that its export effort should not be weakened by attempting to sell too many products in too many markets.

Israel, however, is anxious to find new markets closer to home. Having lost a valuable market worth \$100m last year in Iran, it does not expect its exports to Egypt to amount to more than \$20m-\$30m a year, rising perhaps to the \$80m-\$100m over the next five or ten years.

The Israeli Export Institute's aim is to increase industrial exports in real terms by 25 per cent a year, but the trade body admits there has been virtually no real growth so far in the current year. Israel's export effort is being hampered by the high level of local consumption and a shortage of production capacity, while the high level of domestic inflation is affecting the competitiveness of its exports.

SHIPPING REPORT

Cargo rates enter stable phase

By IAN HARGREAVES, SHIPPING CORRESPONDENT

TANKER RATES bobbed upwards last week on the strength of a heavy volume of inquiry, but dry cargo rates seem to have entered a stable phase.

A very large crude carrier of 250,000 dwt was chartered from the Gulf for a westward voyage at Worldscale 55.

good a rate as the market has seen for a long time.

Outlook remains uncertain, however, with a large number of ships due to arrive at loading terminals in the medium term, the increase in oil output from Saudi Arabia should help to underpin tanker markets.

Firmness in dry cargo

markets is still principally due to grain business, although with higher steel production forecast in Japan, some assistance is carriers.

There is still, however, no sign that owners of dry cargo ships are ready to go for period charters.

For British owners, there is the increasing and unaccustomed problem of the strength of sterling.

This is perhaps one consideration behind the progressive sale of London and Overseas Freighters' fleet of SD14 cargo liners.

Another agreement has been made by shipping lines serving Europe and the Middle East in an effort to consolidate rates and prevent cut-throat competition. Seven of the largest container and "ro-ro" carriers between the UK and Jeddah say that from August they will operate on a common tariff and rules of carriage.

UK assets at risk in Iran

By Lorne Barling

The UK's Export Credits Guarantee Department could be faced with major claims under its overseas investment insurance scheme if Iran goes ahead with announced plans to nationalise all foreign interests.

ECGD's current liabilities in Iran, almost all on equity investment, amount to well over £7m, mainly in comparatively small amounts in joint venture companies. Total foreign assets, from all countries, at risk in Iran amount to around £500m.

The spread of investments covers a wide range of industry, and since equity holdings have been restricted to minority shares, individual company losses are not expected to be great in most cases.

One company which would suffer is BL's Leyland Vehicles, which has a 7 per cent share in an Iranian truck company, and a 26 per cent share in a diesel engine concern. At present both are being run by Government officials.

Nott for Brussels talks

By OUR FOREIGN STAFF

MR. JOHN NOTT, the Secretary for Trade, is to visit Brussels tomorrow for talks with European Community officials on the working of anti-dumping controls, which became an EEC responsibility in 1977.

Mr. Nott, who will be accompanied by Mr. Cecil Parkinson, the Minister of State for Trade, will be seeking to ensure that rapid anti-dumping action is taken against unfairly priced imports into the UK and the EEC.

Although there is no evidence that the system is not simplifying anti-dumping procedures and closing any possible loopholes.

It is also likely he will raise the question of intra-Community trade in certain manufactured goods, which is causing concern among UK companies.

Although anti-dumping measures are controlled from Brussels, the UK has retained a substantial London-based office to deal directly with British industry.

Andean Pact agreement

BRUSSELS—Mr. Julio Cesar Turbay Ayala, the Colombian President, and Mr. Roy Jenkins, President of the European Commission, have agreed to negotiate a co-operation agreement between the Common Market and the Andean Pact nations but have declined to reveal specifics.

The Colombian head of state, ending a tour of Europe, met with Mr. Jenkins for one hour at Common Market headquarters here. Mr. Turbay is seeking easier access to the European market for products of the Andean Pact nations—an economic community which comprises Colombia, Venezuela, Ecuador, Peru and Bolivia.

In a brief communique, Mr. Jenkins said he was ready to begin "as soon as possible, exploratory talks on the form and possible content of such a co-operation agreement."

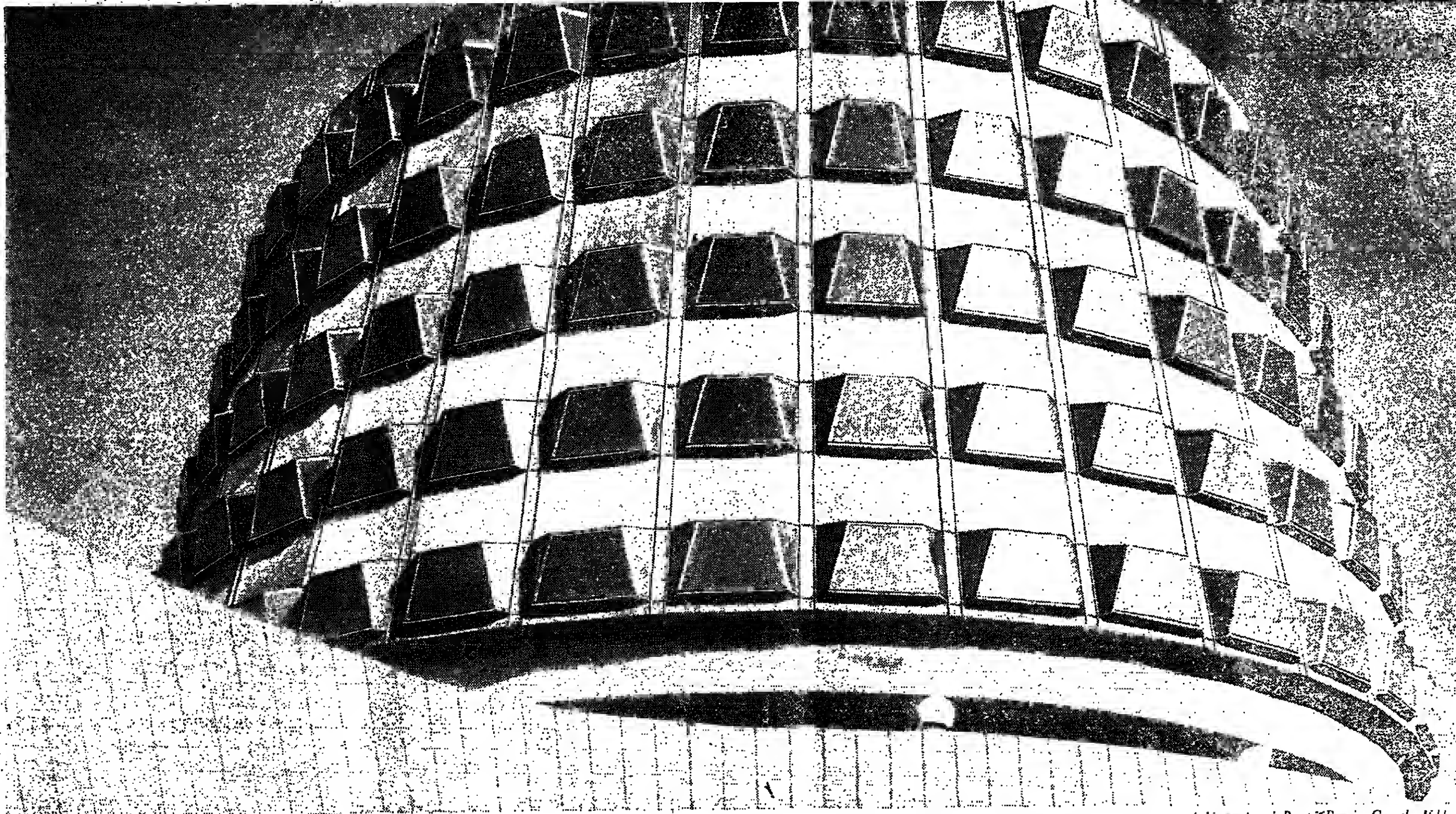
Svenska Cellulosa

Svenska Cellulosa of Sweden says that its offer to British customers to supply bleached sulphate pulp over a six-month period was at a price of \$455 a tonne, not \$485 as stated in last Thursday's Financial Times.

World Economic Indicators

	RETAIL PRICES				Index base year 1974=100
	May '79	April '79	March '79	May '78	
UK	215.9	214.2	210.4	195.7	103
US	214.1	217.5	209.1	193.3	104
France	217.4	215.3	213.0	197.4	101
Italy	150.4	148.5	146.1	131.3	145
Belgium	132.0	131.7	131.4	127.0	3.9
Holland	124.2	124.9	124.2	120.0	4.1
W. Germany	150.0	149.3	148.2	145.0	3.4
Japan	125.7	124.0	123.0	122.5	2.6

% change over previous year



Architects: Antonio Bonet & Francisco Gonzalez Valdes

Who built a castle in Spain for their own good health?

The Spanish medical professions are proud of their new headquarters in Madrid. With some justification.

Its unusual 'beehive' shape is a deliberate breakaway from the match-box school of present-day architecture, and the building reflects an exceptional quality and attention to detail.

Britain can share some of this pride,

since it was built by Laing SA, 85% owned by John Laing, this subsidiary is now one of the leading contractors in Spain. Laing's presence in Spain is good news for the burgeoning Spanish economy. It is one of a dozen Laing overseas companies, either wholly or partly owned, which, world-wide, are exporting British technology.

In Britain alone, more than 20,000

people make Laing one of the biggest construction companies in the world. World-wide, you will find the familiar Laing yellow-and-black site boards wherever new ideas are taking shape. Laing's scope ranges from cathedrals to power stations, from docks to hospitals. Laing expertise can embrace the technicalities involved in building Britain's largest brewery, and the craftsmanship

necessary to renovate the interior of the Albert Hall.

Laing make ideas take shape. With skill. With technology. With craftsmanship.

LAINING
make ideas take shape

UK NEWS

Chairman of Alfred Herbert will quit

BY MAURICE SAMUELSON

SIR JOHN BUCKLEY will shortly give up the chairmanship of Alfred Herbert, the State-owned toolmaker, which he has held for the past four years.

Pay growth at 15% forecast by brokers

BY DAVID FREUD

A PAY EXPLOSION is unlikely in the forthcoming wage round, say City stockbrokers Phillips and Drew.

payments to obtain much else. This is because the comparability recommendation may be in terms of the total rise for the round.

Cruckshank say in their latest circular that even if wage settlements in the next round average 18-20 per cent, the combination of a firm pound, lower employment and the absence of this year's shocks suggests the retail price inflation rate will fall from a 19 per cent peak at the beginning of 1980 through the rest of the year.

British Airways changes soon

BY LYNTON McLAIN

BRITISH AIRWAYS is expected to announce at least two senior Board appointments this week to complete the reshuffle started when Sir Frank McDermott resigned as chairman last month.

Dearer fuel cuts demand for big second-hand cars

BY LISA WOOD

Assuming the Jackson-Vanik DEMAND FOR large, first-thirty used-cars has fallen because of the big fuel price rises, but dealers are confident that this decline is temporary.

car, many of which traditionally were regarded by dealers as "money in the bank cars," such as Daimlers, Jaguars and older Rolls-Royces. The same happened in 1974, he said, and the market recovered.

are becoming more difficult to shift. He claimed, however, that used car values had not dropped as a new Mercedes, for example, had gone up in price by about 10 per cent in the last month with the Value-Added Tax increase and a 2 per cent increase by the manufacturer.

International Computers sued for £2½m

By Max Wilkinson

INTERNATIONAL Computers Limited (ICL) is being sued for £2.5m by Telecomputing, a programming company from which it had taken a licence a few years ago.

British 'hard-hearted' towards the poor

BY PAUL TAYLOR

PEOPLE in Britain are more "hard-hearted" towards the poor than their European neighbours, the Child Poverty Action Group claims today in launching a campaign to "bring home to the public the plight of Britain's forgotten poor."

Britain thought the Government was doing too much to help the poor, compared to 7 per cent in the EEC as a whole.

Volvo has record sales

MORE THAN 20,355 Volvo cars were registered in the first six months of 1979, making it the company's best half-year in Britain, Volvo Concessionaires said yesterday.

The sales are a 41 per cent increase over the 1978 first half, a period when the total market expanded by 19 per cent.

Dr. James Maxmin, chief executive of Volvo Concessionaires, said the sales performance of the Volvo 200 series had been outstanding, while the new 348 range had surpassed all expectations.

Table with columns: UK CAR REGISTRATIONS, 1979, 1978, 1977, 1976, 1975, 1974, 1973, 1972, 1971, 1970. Rows include Total UK produced, Total imported, Total market, Ford, BL, PSA, General Motors, Opel, Other GM, Total GM, Datsun, Renault, Fiat, VW/Audi.

County faces 30% rate rise. DERBYSHIRE faces rate increases of about 30 per cent next year if it does not reduce spending, County Council leader Mr. Walter Marshall has warned.

Fitness for All week in the City. THE CITY OF London's Fitness for All Week started today. Events include daily lunchtime keep fit sessions in front of the Guildhall.

EDGAR ALLEN, BALFOUR HAS A STRONG INDEPENDENT FUTURE. Aurora is attempting to buy EAB at the low point of its fortunes and before the full benefits of its reorganisation and investment in plant and technology, particularly in the special steels business, can come through.

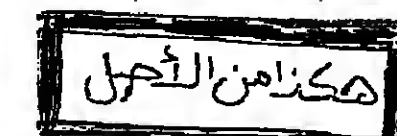
EAB SHAREHOLDERS ARE STRONGLY RECOMMENDED TO REJECT THE AURORA BID AND KEEP EAB INDEPENDENT. The Directors of Edgar Allen, Balfour Limited have taken all reasonable care to ensure that the facts stated and the opinions expressed herein are fair and accurate and jointly and severally accept responsibility accordingly.

INTER-AMERICAN DEVELOPMENT BANK Washington, D.C. DM 50,000,000 8% Deutsche Mark Bonds of 1979/1989 Private Placement. DG BANK Deutsche Genossenschaftsbank Berliner Handels- und Frankfurter Bank Deutsche Girozentrale - Deutsche Kommunalbank - July 1979

From The Banker Research Unit - Four Completely Revised Titles for 1979. Who Owns What in World Banking-8th Edition. Banking in the United States-2nd Edition. Who is Where in World Banking-8th Edition. Offshore Investment Centres-3rd Edition. Philips Data Systems wins Halifax order.

Whale oil imports may be banned. LEATHER GOODS makers may face a Government ban on the use of sperm whale oil for softening leather.

Philips Data Systems wins Halifax order. PHILIPS Data Systems has won a contract worth more than £10m to supply the Halifax Building Society with a new generation of terminals for over 400 UK branch offices.



شركة الامتياز لاجل

Petrol prices rocketing. £1.40 next week?

Right now you could be excused for thinking that the last thing the world needs is a new luxury car.

In which case, we invite you to examine the new Princess 1700HLS and 2000HLS.

They're every inch luxurious, from their sumptuous velour upholstery, rear passenger reading lights and twin-speaker radio, to their smooth, powerful 'O' Series engines and equally smooth Hydragas® suspension.

Yet they're surprisingly inexpensive to run. In urban driving, the Princess 2000HLS with manual gearbox achieves over 27 mpg - which means it's the most economical 2 litre saloon car in town.

At a constant 56 mph you can cover nearly 38 miles on every precious gallon.

And the figures for the new Princess 1700HLS are even better. Not that the new Princesses are only frugal with fuel. They cost less to run than many cars, even before you start to run them.

Inexpensive spare parts mean low insurance premiums. And if your company provides you with a Princess 1700HLS, you'll find that it falls conveniently below the critical 1800cc break point for taxable benefits, thus incurring no more tax liability than a 1600cc car.

How can we sum up the new Princess 1700HLS and 2000HLS? Are they luxurious cars that are economical to run - or economical cars offering an unusual degree of luxury?

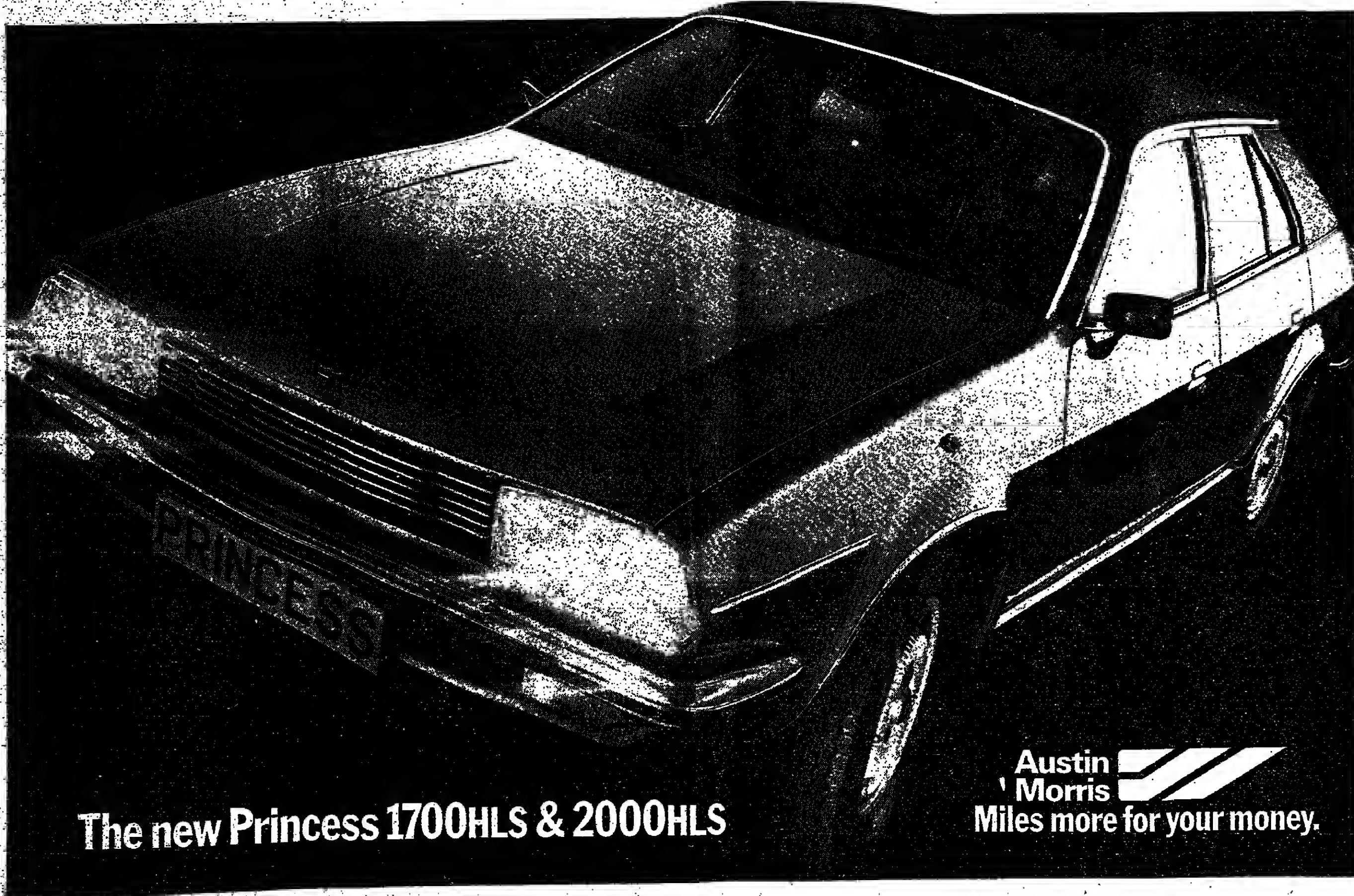
Either way, isn't it nice to know that you can still arrive in the style to which you're accustomed - without feeling guilty?

Official Department of Energy MPG Figures			
Manual gearbox	Imperial MPG		
	Urban	56mph	75mph
Princess 1700HLS	29.7	58.2	28.4
Princess 2000HLS	27.2	57.7	27.7

Metric equivalents: L/100km. Princess 1700HLS: Urban: 9.5; 90km/h: 7.4; 120km/h: 5.9. Princess 2000HLS: Urban: 10.4; 90km/h: 7.5; 120km/h: 10.2.

Hydragas is a registered trade mark.

There's never been a better time to launch this luxury car.



The new Princess 1700HLS & 2000HLS

Austin Morris 
Miles more for your money.

LABOUR

Civil Service technicians resume strikes today

BY PHILIP BASSETT, LABOUR STAFF

CIVIL SERVICE technicians and technicians begin further selective strikes today over pay claims aimed at disrupting power supplies to Service establishments...

UK NEWS

Transport Bill likely to boost competition

BY IAN HARGREAVES, TRANSPORT CORRESPONDENT

MOVES to sell shares in the National Freight Corporation, give us operators more competition and tighten "drink-and-drive" laws may be brought together in a transport Bill...

MOTOR CARS

WADHAM STRINGER

ROLLS-ROYCE

Official Distributors for Rolls-Royce and Bentley.

H.A. FOX 34 Dover Street, London, Tel. 01-499 8962

- 1978 June Rolls-Royce Silver Shadow II Saloon. Chestnut, Magnolia leather. Speedometer reading 1,350 miles.

GUILDFORD

Woodbridge Road, Guildford, Surrey, Tel. 69231. Tlx. 839255

- 1979 Jan. Rolls-Royce Silver Shadow II finished in Chestnut with Beige hide interior. 500 miles.

WADHAM STRINGER

1978 model. Metallic Mid-Plus with Blue cloth trim. Auto, PAS, radio, tinted glass, 8,000 miles only.

GRANADA 2.8 GL AUTO

1978 model. Metallic Mid-Plus with Blue cloth trim. Auto, PAS, radio, tinted glass, 8,000 miles only.

JAGUAR XJ6 3.4 L.W.B.

1977 model. White with Burgundy vinyl trim and matching vinyl roof. Automatic, PAS, radio/stereo, 25,900 miles only. Mint condition.

ELITE MOTOR SERVICES

ASHBY/LEIC. 0283 219183/219208

CAR MARKS OF HULL

1 FHO 6795 AM 99 12,995 JT 4 12,950 JROO 0950

Brighton Car Concessionaires

NEW FERRARI - EARLY DELIVERY 500 GTS 500 cc 180 BHP

CITROËN in the City

For a comprehensive range of new Citroën cars including GSX 3 call

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at a cost of £12.00 per single col. cm. For further details contact: SIMON HICKS on 01-248 5115

PLAY IT COOL THIS SUMMER!

ENJOY OPEN-AIR MOTORING IN THE BRISTOL 432/52. SHOWING THAT YOU CAN HAVE A MASSIVE SEPARATE CHASSIS AND ROLL-OVER BARS... PROBABLY NO OTHER CONVERTIBLE, REGARDLESS OF PRICE, HAS THESE SAFETY FEATURES...

Heating cuts

STAFFORDSHIRE County Council, notified by suppliers of 20 per cent cuts in fuel deliveries, are to switch off boilers in schools at 2.30 p.m.

Air services centralisation is criticised

By Robin Reeves, Welsh Correspondent

THE CIVIL Aviation Authority was criticised at the weekend for seeking to centralise air traffic into fewer airports...

Ex-bank chief leaves £45,757

SIR GEORGE RENDEL, former chairman of merchant-bankers Singer and Friedlander, and Ambassador to Belgium 1947-50...

Steel jobs go after £7m modernisation

By Ray Perman, Scottish Correspondent

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Another teachers' union gives warning on cuts

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GEC strikers stay out

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Contract No. 5194 Supply of 10 (ten) Light Diesel Electric Main Line Locomotives

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Workers' Council of the Communal Organization of Associated Labour for Water Supply and Sewer System "VODOVOD"

32000 CACAK, Vojvode Stepe Str. No. 18 is announcing THE INTERNATIONAL COMPETITIVE BIDDING FOR SUPPLY AND ERECTION OF DIESEL GENERATOR UNIT 500 KVA FOR STAND-BY POWER SUPPLY OF CACAK WATERWORKS

WORK TO BE TENDERED:

SUPPLY AND ERECTION OF DIESEL GENERATOR UNIT 500 KVA FOR STAND-BY POWER SUPPLY OF CACAK WATERWORKS.

LOCATION:

Cacak, Beljia suburb.

TIME OF COMPLETION:

180 days from the date of receipt of order to commence the works.

CLOSING DATE FOR RECEIPT OF TENDERS:

August 20, 1979 at 12.00 a.m.

CONDITIONS FOR ASSIGNMENT OF CONTRACT:

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RIGHT TO PARTICIPATE IN TENDERING:

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DECISION TO BE MADE:

The decision on selection of the tenderer shall be made within 15 (fifteen) days from the closing date for receipt of Tenders.

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By Ray Perman, Scottish Correspondent

THE SEVER

Technical Page

EDITED BY ARTHUR DENNETT AND TED SCROETERS

METALWORKING

New range of milling and boring machines

NEW MILLING and boring machines by Ingersoll are available in three sizes with 15, 20 and 25 hp main spindle drives.

These machines have been designed to give low cost and are marketed in the UK by RK International Machine Tools of Erith, Kent.

All machines have the same layout that is, bed with X axis travel, column with vertical Y axis travel and a saddle on the column for Z axis. The smallest version, the MBM 15, has 1,250 mm of longitudinal travel.

COMPONENTS

Devised for danger zones

A DIAPHRAGM-operated air pressure receiver switch has been devised by Delta Controls for use in pneumatic control systems in hazardous areas at Sterling Organics' Dudley, Northumberland plant.

It has been called the Type 262 and has a range of 0.2-1.0 Bar. It was designed to Sterling Organics' specification for use as an interlocking device between normal process control signals at 3-15 psi to direct switch power to safety systems operating at 80 psi.

Sterling Organics has about three dozen of the Delta switches working with the extensive pneumatic instrumentation and process control equipment throughout the plant, which produces fine organic chemicals. The device has an adjustable

overarm to carry support. All axes can be fitted with recirculating ball screws and dc feed motors which provide infinitely variable feed rates in the range 10 to 2,000 mm/min. Rapid traverse rate is 3,000 mm/min.

This feed system makes the machines particularly suited to the turning of additional control controls such as electronic copying or numerical control.

When the Philips 6683 CNC system is fitted, all the controls are incorporated into a special pendant which includes a keyboard for editing and manual data input.

INSTRUMENTS

Laser has many roles

CARBON DIOXIDE lasers and accessories, the CM Series, are being introduced to meet the emerging needs of systems designers in this field.

First product in this Ferranti range is the Type CM1000, 21 Watt waveguide unit. Waveguide lasers offer distinct advantages over their conventional counterparts with compact rugged construction, giving a highly stable continuous wave output, a tunable output frequency range, and an operational life before recall of typically 500 hours.

Available with an optional cavity length transducer capable of tuning the laser frequency through one complete spectral range, the Ferranti CM1000 waveguide laser has a choice of two power supply units. One is a standard rack mounting with a cooler, and the other a compact ruggedised modular unit constructed to full military specifications.

Applications for the CM1000 laser are varied, with uses in such military and civil fields as rangefinding, communications, velocimetry, infra-red beacons and scanners, welding and drilling of plastics, spectroscopy, general laboratory use, engraving wood and plastics, fusing of optical fibres, and laser surgery.

Ferranti, Dunsinane Avenue, Dundee DD2 3PN. 0382 8939.

SERVICES

Speeds the information

SERVICE for international traders and brokers launched by CMG Computer Management Group is expected to be used by many groups dealing in a variety of commodities.

Developed by CMG Southern in Croydon, the INTRACT service will enable traders more accurately and rapidly to monitor contract commitments and to provide all the associated accounting requirements.

INTRACT (International Trading and Accounting System) has visual display terminals in the traders' offices to give immediate access to accurate and up-to-date information on all outstanding commitments.

Each trading company using the service will have its own confidential file set up on the computer system which is run on twin Burroughs 3380 computers at CMG's Croydon data centre.

PROCESSING

Makes connection easier

CONNECTING solid aluminium cables into terminal boxes and other confined spaces has been simplified following the introduction of equipment which forms terminal ends by Mercia Engineering, one of the Redman Heenan International group of companies.

Although such cables have been in use for a number of years, difficulties are still being experienced in manufacturing them into, and subsequently connecting them up within the limited space available in terminal boxes originally designed for copper cables.

With the Mercia system, which was developed with the Central Electricity Research Laboratories, the terminal ends of the cables are first flattened to controlled thickness and then pierced to accept the clamp bolt in a hand-held hydraulically-operated press.

Cables, as a consequence, can be bolted directly into terminal boxes without recourse to crimped-on lugs, the method used hitherto and one that, due to the length and stiffness of the lugs, adds to the difficulties of making connections.

This new technique has been fully approved both electrically and mechanically by CEGB

which is now using the system on current power-station contracts.

Mercia Engineering Co., West Avenue, Wigston, Leicester, LE18 2FG. Leicester (0533) 581404.

Pumps for food industry

DESIGNED TO operate at low speeds to ensure gentle handling of liquids with a minimum of shear is the Frisam FK range of rotary positive pumps, introduced to the UK by Alpha Technical Services, Altec House, Bridge Close, Harrow, Middx. (01-422 3400).

Pumps are made of high grade stainless steel with nickel alloy rotors and are capable of handling high viscosity fluids with smooth flow and precise accuracy.

Capacities are to 50,000 litres per hour.

Range is said to be of hygienic quick-disassembling design and can be sealed to suit most applications in the food, dairy, toiletry and chemical industries.

AUTOMATION

Simplified control of multiple lifts

NOTHING IS more frustrating than to stand waiting for one of several lifts at a landing only to find that like the legendary No. 11 buses in London, they are moving in convoy and happen to be as far away from one as they can get.

But lift systems can be and are tailored to meet conditions of "people traffic" in the buildings in which they are installed. The snag is that with the traditional electrical relay controllers, any change in occupancy, or even a staff redistribution can entail a lengthy redesign of the controllers and protracted sessions by the lift engineers with festoons of wiring.

The criterion for successful control of a lift system is average waiting time, which is a quite complex value to determine since if a computer is used to check the older installation, several hundred connections must be made to existing control wires before any meaningful measurements can take place.

Once the pattern of operations has been captured, however, it is a matter for the analytical specialists using graphical techniques to compress a mass of detail into easily read diagrams.

At Express Lift Company in Northampton, work like this, carried out over the past four to five years, has enabled the company to make a major advance in control techniques, both in the area of controller

design and in the way a control system is specified.

The designers and the company management are not claiming a breakthrough, but they are quietly confident that the way in which they have used microelectronics to standardise control board design and make alterations to control programmes simple, even for the most complex and fastest of lift systems, gives them a lead of between 12 and 18 months over any opposition.

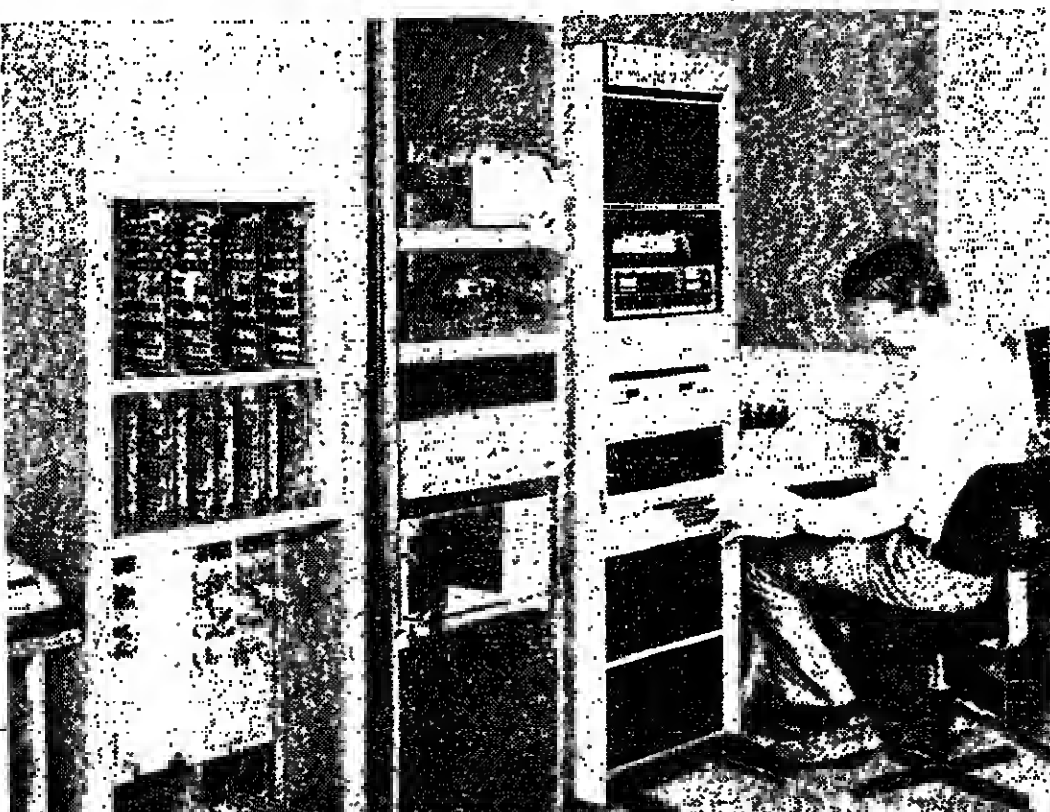
All a lift engineer has to do when a programme changes is to replace the memory device holding the earlier programme with a reprogrammed unit. All he has to do if a fault develops on a board is to slide in a new one—and the experimental units which have been under test for a considerable time are showing reliabilities of a very high order.

One extremely important consequence of this approach is that tailoring a lift system to a given building is no longer a protracted manufacturing procedure. The lift engineers specify the controller as they did before in "lift language" and the computer specialists turn this directly into a control programme. But the installation to suit this building, or the one next door will be identical, except for a tiny component which will have the programme "burned" into it, and the number of control cards which corresponds to the number of lifts. It is a simple matter to stop

multiple lifts from "bunting" or to instruct them to return to landings with the heaviest traffic, etc. etc.

The Express Traffic Processor control system as it now stands is capable of providing fully automatic optimised control for up to eight inter-connected lifts of the medium-speed geared or high-speed gearless types. Complete control equipment for the eight lifts goes into a single cabinet taking up, say, one-tenth of the floor space needed by the relay-based equivalent.

With it, diagnostics, or traffic pattern analysis, by a control computer become simply a matter of plugging in one



The new, compact controller is in the cabinet on the left. It is a four-lift unit with, on its right, the process control machine which is monitoring its reactions to simulated building traffic. Next to this is the scientific machine which is used to manipulate programmes to suit demand patterns. This centre at Northampton could be used to test, remotely, installations in the UK, using an appropriately switched telephone line as the link. It would, in fact, be possible to take control of a lift system from this laboratory.

connection and there is no reason why this should not be done between Northampton and any site over a telephone link.

This is a first major step towards a complete streamlining of lift control systems. A further one is likely to be in the control of the motors themselves.

Express is a member of the GEC group and GEC's Hirst Research Centre co-operated in the development of the special language used quickly to modify control operations.

Express Lift Company, Abbey Works, Weedon Road, Northampton NN5 5BT. 0604 51221.

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RESEARCH

Study of energy use at school

IN ORDER to assess the value of its energy-conserving design, a new school to be built in Walmley—the Church of England's Sutton Coldfield Deansy First and Middle Schools—will be monitored for four years by the Birmingham School of Architecture, which is responsible for the research in co-operation with the Diocesan Education Council, Education Dept., Architect's Dept., and West Midlands Gas Board.

Architects have tried to embody some of the best aspects of both open and closed planning of different areas in accordance with current educational thinking, and their prime aim has been to achieve a small-scale character which will not overawe the children.

Design of the project is by Birmingham architect, John P. Osborne and Son, and it is to be built by Turritt Construction under a contract valued at about £650,000.



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Heathrow Gatwick Stansted Glasgow Edinburgh Prestwick Aberdeen

Building and Civil Engineering

£70m factory in Algeria

IN JOINT venture with Helmann and Littman of West Germany, Bos Kallis Westminster Construction B.V. of Dordrecht, Holland, has won a £70m contract for the construction of a factory in Ain Smara, Algeria. The factory is to be used by Ingersoll Rand for the production of air compressors. Included in the contract is the construction of a training centre and a village. Awarded by the Algerian state organisation Sonacome, the contract is due for completion in just under 2½ years.

£11m Kyle Stewart award

A START has been made on the £11m second phase of a research facility for Smith Kline and French Laboratories at Welwyn, Herts. Work has already been started on the project which covers 235,000 sq ft of laboratories, offices, canteen and welfare facilities and library. When this part is completed in October, 1981, the whole facility, all designed by Kyle Stewart, will cover about 350,000 sq ft.

Awards to J. M. Jones

INCLUDED IN new contracts for J. M. Jones and Sons, of Maidenhead, are seven projects for its associate company, Markham Development. These include factories and warehousing at Bexley, Kent, £1.1m; industrial development at Reading, £1.03m; industrial unit at Boreham Wood, £400,000; industrial development in Bridgewater and Bristol, £900,000. Markham has also placed work with the company for roads and services in Reading at about £1m.

Rebuilding at army camp

THE PHASED demolition and rebuilding of the No. 15 Command Workshop REML, Bovington Camp, Dorset, is the subject of a £4.2m award to Cementation Construction by the Property Services Agency. Work includes demolition of 50 existing buildings, the erection of a new steel-framed workshop 160 x 80 metres, with overhead electric travelling crane, roller shutter doors, concrete floors and underfloor heating.

£2m contracts for Bryant

TWO CONTRACTS, together worth £2.2m, have been won by C. Bryant Civil Engineering, the major one being for site grading, roads and drainage to Solihull Industrial Estate, a 50-acre industrial development. Cileot is Bryant-Samuel Properties, owned jointly by Bryant Holdings and Samuel Properties and the architect Peter Hing and Jones.

£4m housing in Abu Dhabi

THE John Laing Group associate company, Al Naboodah Laing, has been awarded a £4m contract to build 200 houses for the Office of Diwan of the Emirate of Abu Dhabi. Completion is due in 18 months. The houses will occupy two sites of 100 each—one site is 6 km south of Al Ain and the other 30 km to the east of the town. Construction will consist of in situ concrete and blockwork in fill panels, with the majority of the houses having a "pyrocrete" rendered external finish. The architects are Conser of Lebanon and Abu Dhabi.

New telephone exchange

SCOTTISH Telecommunications Board, through the Property Services Agency, has awarded the contract for a new telephone exchange at Stirling to Gilbert Ash Scotland. This is being run on a Design Build basis and is valued at just under £1m. The new exchange will increase telephone facilities for the Stirling area. Building will be of concrete columns and brick construction and will also contain welfare facilities for Post Office staff.

£4m awards to Sir R. McAlpine

OFFICE BLOCKS in Leeds, and a bus station and railway interchange at Gateshead, constitute £4m worth of work awarded to Sir Robert McAlpine and Sons. Gateshead contract is worth more than £1m and covers part of the Tyne and Wear Metro system. It calls for a concourse entrance building, subways, shelters, roadworks and landscaping.

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Rail track work

CONSTRUCTION OF trackwork in the central area of Tyne and Wear Metro started last month under a £1.8m contract awarded to Balfour Beatty Construction. Work comprises some 3,709 metres of trackwork on pre-cast sleepers in all: 4,458 metres of trackwork on concrete block sleepers cast into a continuous slab; two scissors crossovers; four crossovers, and provision for associated drainage and signalling equipment.

Work rolls into Wimpey

OVER £11m worth of contracts have just been awarded to Wimpey. For General Motors, the company is to build a warehouse at Milton Keynes, Bucks. This £6.4m contract calls for a building with receiving and shipping bays covering 42,150 square metres and offering a clear height of 9 metres. Within the end bay will be a two-storey service block and cafeteria. Architects are Howard Fairhair and Partners. A second award to Wimpey is a management contract for a development for IBM United Kingdom at North Harbour, Portsmouth designed by Arup Associates. This project, the fourth phase of the site development, covers a complex of buildings totalling about 33,190 square metres, housing the new main entrance, administrative offices, computer suites and cafeteria together with other central amenities serving the whole of the IBM North Harbour site. The complex of buildings is made up of four stepped blocks linked together by a three-storey glazed pedestrian arcade or "street" which also joins the existing buildings. Three of the blocks are three storeys high, and one four storeys high—the cafeteria facilities form the ground level of this fourth block. All buildings will be on piled foundations on this site which is land reclaimed from the sea. Generally the ground floor is to be of proprietary precast concrete construction at a raised level to create a services undercroft which also contains pile caps. Overseas, the company subsidiary, Wimpey Offshore Construction Company Inc., has been awarded jointly by the Government of the Yemen Arab Republic and the Netherlands a £4.7m contract for the construction of the Dhamar health complex in the Yemen Arab Republic. The complex will be a single-storey building linked with a centrally situated technical services building, the whole covering 7,800 sq metres. The main part of the complex will include operating and casualty facilities, laundries, kitchens and ancillary services. The architect is Van de Stoop BV—Architecture and Planning, of Rotterdam.

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Jobs for Monk in south-west

CONTRACTS WORTH £2.1m, to be supervised from its regional office at Taunton, Somerset, have been won by A. Monk and Co. Largest job is for Welsh Development Agency at Ebbw Vale for a £1.8m single storey factory extension for Alfred Teves on the Waun-y-Pound industrial estate, plus a two storey office block. At Avonmouth, the company is to carry out civil engineering work connected with a proposed new copper dross plant for Commonwealth Smelting. Project is valued at £325,000 and involves the construction of various substructures, bases, bund walls and general foundations to separate buildings, settling and storage areas and other external structures.

£1m worth to Waller

PROJECTS worth about £1m are to be undertaken by George Waller (Warwick). The largest, valued at £299,000, is 24 dwellings for the Metropolitan Borough of Solihull. Another, worth £191,000, for the Hereford and Worcester County Council, covers extensions for Wallace House, Evesham. Waller has also been commissioned by High-Police Project Management to build a warehouse, value £104,500, in Cardigan Street, Birmingham, and to build a church meeting hall with flat over at the Parish Church, Aston, Birmingham, at a cost of £161,800 (architect: K. C. White and Partners). Other new awards include the refurbishing and extension of Nash House, Park Village East, London NW1, value £90,000 (architects: G. R. Stone and Partners); building five almshouses in Warwick, worth £78,631, for Warwick United Charity (architects: Donald A. James and Partners) and carrying out eight house modernisations for Warwick DC at a cost of £53,893 (architects: Harley-Smith, Steel and Breeze).

North Sea diving contract

IN JUST two years' operation, Global Diving Services of Aberdeen claims to have become one of Britain's fastest-growing diving contractors specialising in international oilfield construction, maintenance and inspection operations from bases in Aberdeen, Great Yarmouth, Caico and Dublin. One of the most recently contracted North Sea diving contracts, awarded by Occidental Petroleum Galedonia, has been won by the company which, with options, will extend to the end of 1981 and is believed to be worth about £2.2m a year. Contract is for the provision of saturation diving services aboard the MSV Northern Explorer, and aboard Occidental's new multi-function support vessel, MSV Tharos, currently under construction in Japan for the Piper and Claymore fields. Additionally, the contract will include the diving programme for annual inspection of the jetty, pipelines, and single-buoy moorings at Occidental's Flora terminal.

Study of sanitation

MINISTRY OF Housing, Land and Urban Development in Dar-es-Salaam has signed an agreement with Howard Humphreys and Partners for the consulting engineers to carry out a World Bank funded master plan and feasibility study of the sewerage and low cost sanitation situation in greater Dar-es-Salaam. Worth £2m to Howard Humphreys, the study will detail a least-cost first stage programme of sewerage and low cost sanitation improvements to be implemented during the period 1980 to 1984. Report will not only include technical, economic and financial studies of this first-stage programme, but will also make recommendations for the development of administrative, technical, commercial and financial capabilities in the agency identified as being the administrative and operational unit for Dar-es-Salaam sewerage. For this aspect of the work the firm has the assistance of the management consultancy of Peat Marwick Mitchell and Co. of London.

IN BRIEF

- For £650,000 Costain is to extend office facilities in Brampton, Essex, to be used by B.S.C. Footwear Supplies. An additional two floors will go on the existing three-storey open-plan centre and a two-storey link bridge will connect this to the main office building.
- Selleck, Nicholls, Williams (EEC) has been awarded a contract worth £659,736 by Cornwall Independent Hospitals Trust for the construction of a 25-bed private hospital at Truro.
- S.W. Farriner Group says it has won contracts in the Middle East totalling £1.2m. One is for a glass container production plant in Cairo and the other for a printing works in Jeddah, Saudi Arabia.
- The John Withnall Group has been awarded a £265,000 contract by the Trustees of the Bedford Centre to build a sports complex at Bedford School.

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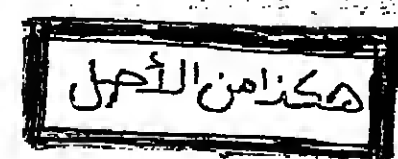
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Tax system at fault, say Wilson critics

THE PROVIDERS of development capital are not excessively strict in their lending requirements, to small companies, say the providers themselves, in reply to the Wilson Committee's interim report on the financing of small firms. They argue that it is the tax system which is at fault and that it should be made to discriminate in favour of the small private investor.

Nine development capital organisations, including ICCC (the Industrial and Commercial Finance Corporation) and the State-backed NRDC (National Research Development Corporation), argue that the committee should really have divided the problems of financing the small firms sector into two groups.

The problem, they say, is both quantitative and qualitative. First is money available in sufficient volume. And second: Are the qualitative tests for applicants too severe?

The nine bodies argue that the evidence from all types of institution is that the qualitative tests, as applied at present, are not too severe. They must, they insist, be reasonably prudent in their handling of what is, in fact, other people's money. They must also obtain the best return available from other forms of investment, taking into account the comparative risks.

If the Wilson Committee (which is reviewing the functioning of the City's financial institutions) had examined these two points separately, say the bankers, then it would have led them to highlight the following question: "Is it in the public interest that small firms, which are unable to meet the

Max Wilkinson on a U.S. electronics group with an unusual talent for survival in markets where others have failed

Commodore calculates the risks of living dangerously

Business Machines is a company which inspires a certain feeling of vertigo. Unlike many of its Californian neighbours, it has managed to balance for the past decade on a high wire of microelectronics technology over some notoriously unstable markets, including those of electronic watches and calculators. Yet it is much older than most of them, having started its life 23 years ago in the very traditional market for mechanical office machines. It is one of the few companies in the world successfully to accomplish this difficult transition.

To keep the company afloat in the 1970s, while many bigger rivals were crashing out of the business, Commodore's President Jack Tramiel, has needed remarkably steady nerves and an ability not to look down too often.

He has also needed to show exceptionally fast footwork to survive the continual risk of being stuck with obsolete products and to avoid being caught by the giddy fall in margins.

His creation is an example of the type of fast-moving entrepreneurial company which Britain's Government has professed itself anxious to encourage, and of which the UK is conspicuously short in the electronics field.

liquid crystal calculator displays. This decision undoubtedly helped the company to survive the general fall in prices.

Another plank of Commodore's expansion was greatly to boost its marketing efforts in Europe. The respectable market share achieved in Europe, particularly in the UK, helped Commodore to survive the lean years of the U.S. market.

For some years Commodore had a sizeable manufacturing operation in Britain, but this has been gradually cut back in favour of U.S. and Far East production. Last week it said its factory was to be closed.

Mr. Tramiel says his Polish origin gave him an advantage in Europe because it enabled him to understand the different ways of doing business: "Europeans expect to stay with a contract, where Americans would ask for a rebate if market conditions change."



Commodore's PET personal computer in operation

Gimmick

Recently he has taken vertical integration one step further with a move into retailing, through a few specialist electronics stores on the west coast of the U.S.

In the watch and calculator market, Commodore appears still to be up among the innovators, with alarm watches and programmable calculators at competitive prices, although it may be that the Japanese have an edge in certain sectors of the market, particularly that for gimmicky calculators and multi-function watches. But a period of relative price stability seems likely in the Commodore and the other companies a certain breathing space.

Commodore's inception in 1954 owed much to a meeting between Jack Tramiel and Erich Markus, head of Office Electronic Machines, the UK's leading distributor of typewriters.

At that time Mr. Tramiel had started in a small way repairing office machines. Mr. Markus introduced him to many different manufacturers in the U.S. business. "He was my first business teacher," he says.

Partly as a result of this friendship, Mr. Tramiel got into the typewriter assembly business with a loan of \$175,000 and a licence from Czechoslovakia. By 1959, he had become agent for the Quick electro-mechanical adding machine, later starting the assembly of adding machines, first in Berlin and then in Japan.

Cattle ranch

Engineers work better in this atmosphere than in the "cattle ranch" conditions of the research and development centres of the big corporations, he believes. We are expecting to bring out a new microprocessor-based product every three months," he says.

A great deal will depend on whether the company can maintain its position in the personal computer market in the face of growing competition from larger well established electronics companies.

In the last two years the main competitors in this field have been Intel, Apple and two comparatively small companies which have grown rapidly as a result of the hobby market in the U.S.

This summer, however, Texas Instruments, the world's largest semiconductor company announced that it was introducing a computer specifically aimed at the consumer market.

In the business market Wang has been moving towards the very small systems, while companies like Olivetti are expand-

ing their office calculator ranges to merge into the computer market.

How Commodore will react to these new pressures remains to be seen, but it does have the advantage of previous experience in the office equipment world.

Shake-out

Commodore was one of the first companies into the booming market for hand held calculators and later digital watches. Now after a major shake-out, it is one of the few companies to have survived in the business. Even large groups like Rockwell and specialised semiconductor companies including Fairchild and National Semiconductor, have wholly or partly withdrawn from this particular race.

In the UK Sinclair, which like Commodore entered the market at the beginning of the boom, has—even with Government subsidy—been driven into a small corner and looks unlikely to stay in the calculator market for long.

Indeed, Commodore took a nearly disastrous fall in 1975, when almost all companies made heavy losses from hand

Management abstracts

These summaries are condensed from the journals of abstracts published by *Annual Management Publications*. Readers wishing to consult original texts should write to PO Box 23, Wembley, HA9 8DJ.

The Labour Relations of U.S. Multinationals Abroad. B. Rodgers in *Labour and Society* (Switzerland), Vol 4 No. 1, p. 3 (23 pages).

Examines host-country industrial relations conflict areas that are generally believed to accompany the operations of U.S. multinationals, especially the limitation of local management authority, the ability to "switch" investment and production to other countries, and the allegation that multinationals disregard local industrial relations customs and values; compares these perceptions with those of labour relations of foreign multinationals in U.S. Plus forward a product-life-cycle theory to explain management behaviour and its effect on human relations in the manufacturing sector, and examines multinational behaviour in this context.

New Scope for the Suggestion Scheme. O. J. Bégin in *Industrielle Organisation* (Switzerland), Dec. 78; p. 537 (3 pages, in German, English version available).

Pleads for the recognition of suggestion schemes as integral parts of management methods, by widening their scope and inviting staff to use them to point-out risks and to suggest how such situations can be avoided or remedied. Assembly-Line Reform in Germany. B. Walsh in *Management Services* (UK), Feb. 78; p. 22 (two pages, illus., diag.).

Summarises a German-government-funded study of ways of improving job satisfaction, particularly for assembly-line workers; quotes examples from Daimler-Benz, AEG Telefunken (typewriters), and Volkswagen of attempts to divide assembly or component lines into smaller sections with intermediate stocks so as to give operators more control of pace.

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In the UK Sinclair, which like Commodore entered the market at the beginning of the boom, has—even with Government subsidy—been driven into a small corner and looks unlikely to stay in the calculator market for long.

Indeed, Commodore took a nearly disastrous fall in 1975, when almost all companies made heavy losses from hand

Management abstracts

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LEGAL NOTICES

IN THE MATTER OF PLANTATION HOLDINGS LIMITED AND IN THE MATTER OF THE COMPANIES ACT 1967

Notice is hereby given that the creditors of the above-named company, which is in liquidation, are required to submit their claims to the Liquidator, Mr. Ernest Parsons, Chartered Accountant, Joint Liquidator, at the offices of Messrs. Ernest Parsons, Chartered Accountants, 15, Abchurch Lane, London EC4A 3DF, on or before the 20th August 1979, being the date of the next meeting of the creditors of the company. Any creditor who fails to submit his claim to the Liquidator by the above date will be deemed to have accepted the dividend to be paid to him at that meeting. The Liquidator will not be bound by any claim submitted after the above date.

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1978 CAPITALISATION ISSUE

NOTICE TO HOLDERS OF SHARES OF THE "SHELL" TRANSPORT AND TRADING COMPANY, LIMITED, in respect of the 1978 Capitalisation Issue, is hereby given. The dividend of 180p per share, payable on the 31st March 1979, in respect of the six months period ended on that date, is payable to the registered holder of the shares in the United Kingdom and will amount to 20.00% of the nominal value of the shares. Details of the dividend can be obtained from the following agents:

RESIDENTS OF THE FOLLOWING COUNTRIES: Australia, Canada, Denmark, France, Germany, Greece, Hong Kong, India, Italy, Japan, Korea, Malaysia, New Zealand, Norway, Singapore, Sweden, Switzerland, Taiwan, Thailand, United States of America, United Kingdom, and with amounts to 20.00% of the nominal value of the shares.

RESIDENTS OF ALL OTHER COUNTRIES who are entitled to receive a dividend of Yen 2.50 per share on the 31st March 1979, in respect of the six months period ended on that date, should apply to the following agents for the dividend:

RESIDENTS OF THE REPUBLIC OF KOREA who are entitled to receive a dividend of Yen 2.50 per share on the 31st March 1979, in respect of the six months period ended on that date, should apply to the following agents for the dividend:

PUBLIC NOTICES

PLYMOUTH CITY COUNCIL £3.5m Bills issued 4th July 1979, due 3rd October 1979. Bills outstanding £0.5m.

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THE ARTS

Covent Garden

Idomeneo by MAX LOPERT

Idomeneo, the most recent of the Mozart operas to enter the Covent Garden repertoire, was revived on Friday evening. The performance was one of the bleakest of a generally hapless season. The dramatic pulse was flat. The contribution of the chorus was perfunctory. A number of staging effects were notably wrong. All of which suggests that the Götterkinder production may have been less than wholeheartedly presented under Michael Rimmison's supervision - but why did the Principal Producer of the House not revive the opera himself - and that for the company it is not exactly a labour of love.

On the other hand, I (who did not see the production last year when it was first shown) find it hard to believe that anyone with the degree of discipline and involvement unknown to Friday's performance, it could be anything other than a monstrous perversion of Mozart's opera seria. Encountering it the evening after Peter Hall's Glyndebourne production of *Coste fan tu*, which operates from the text outwardly, and from an unfalteringly acute sense of musical and dramatic style, made for a brutal juxtaposition. Tastes differ, over the sets and costumes of Stefanos Lazaridis; for me, their ugliness is unrelieved. By comparison, the Royal Opera's much-decried *Titus* and *André*, both equally replete with Levantine bric-a-brac, stand as models of dramatic consistency. The difference is that both those stagings are in essence 19th-century productions of 19th-century operas. Friedrich's *Idomeneo*, stripped of its pretentiousness, is in essence a 19th-century production of an 18th-century opera.

Colin Davis, conducting is affectionately detailed but sadly, mostly devoid of the classical fire and purity for which his reading of the opera won its renown. A charitable view could be that he is an



Janet Baker Leonard Burt

instinctive man of the theatre, and was conducting the production rather than the opera. The uncertainty of style spread to even so distinguished an artist as Janet Baker, whose Idomeneo moves between elegance and mannerism. The pallid Ila of Yvonne Kenny and the light-weight Idomeneus of Stuart Burrows (who needed the frequent, audible assistance of the

prompter) are repeated from last season; a new element, and almost the only consistently gratifying feature of the performance, is the Electra of that underrated singer Elizabeth Vaughan glittering, aptly dramatic without vocal exaggeration (despite having to play a gesticulating vamp-sorceress), beautifully sensuous in "Idol mio."

Purcell Room

Lysis by ANDREW CLEMENTS

Lysis is a small group of young musicians specialising in contemporary music. Personnel are tailored to suit the programmes, but the constants are the bassist and pianist, Roger Dean, the percussionist Ashley Brown, and the violinist Hazel Smith. Their repertoire is imaginative and enterprising, with a particular emphasis on realising the graphic scores and improvisational pieces in those grey, undefined areas that separate jazz from the fringes of the "serious" avant garde. It's music to which they respond with great vitality, and with care and discrimination they could carve out for themselves a valuable niche among modern music ensembles.

At the moment, their very enthusiasm leads them astray in their programme. Purcell Room recital used eight members of Lysis in works by Hindemith, Ives, Stockhausen, and Kenakis, and four new pieces, as well as cramming in two group improvisations. Even using the short improvisations as a digest, it was difficult not to be suffering from aural indigestion by the end of the concert.

Fewer works, more chance to relax, perhaps the unfamiliar pieces, might have created a stronger impression. As it was, Theo Loeberdie's Music for Contrabass and Piano, a mixture of graphic and exact notation, came across as no more than a catalogue of the sound resources of the contemporary double bass, with Dean (accompanied by Erik Levi) as a virtuoso guide, often

crudely constructed and congested with incident. Michael Finnissy's *Le Tého* is a minor work in his prolific output, a neat little study in ritual patterns for solo percussionist, mostly fingertip pattering, interrupted by the occasional hard-struck tomtom and long, echoing silence. Lysal Cresswell's *Wozza Tanga* makes a fairly extended piece out of a handful of pitches & long overlapping lines for violin, double bass, and trumpet, conjuring up unexpected focal references in a macabre, brooding atmosphere.

More substance, however, in John Wallace's Variation for bass clarinet, trumpet, violin, double bass, piano and percussion. It begins and ends well, falls away in its central section, yet creates the sense of a quite positive musical personality, full of surprising Stravinskian echoes (to his neo-classicism

as well as the *Rite of Spring*) and jagged motoric writing. Elsewhere the group provided sturdy, acceptable performances, witty in Hindemith's *parke* Three Pieces, confident in Kenakis's *Morsima-Amorsima*. Colin Lawson's version of Stockhausen's *Amour*, five pieces for clarinet, was radically less extrovert than any other I have heard; but Ives's *Violin Sonata No. 2*, played by Miss Smith and Dean, seemed out of place in the context of this programme.

Perhaps future Lysis concerts will show less concern with displaying the full range of its scope and more attention to balance. A programme devoted to improvisation, for instance, would be bold and fascinating - the two examples included here were too brief to show how well the group could work together and whether any elaborate structural plans could be explored and sustained.

Festival Hall

Berlioz by ANDREW CLEMENTS

Thursday's concert by the Royal Philharmonic Orchestra was the fifth of what it calls its "Dorati Series": six concerts in all, each devoted to a single composer, a celebration designed for the orchestra's new conductor Laureate, Berlioz is not, however, a composer I had previously associated with Antal Dorati, and indeed, the programme did not suggest a Berlioz specialist. *Les Nuits*

d'Été and the *Symphonie Fantastique* preceded by the Overture *Les Franc-Juifs*.

But evidently he cares about the composer. All the interpretations were sober and steadfastly serious, apparently intent on welding the most wayward structures into some sort of organic completeness, even at the expense of incidental excitement. In the overture the RPO strings could not float the cantabile

Aldwych

Antony and Cleopatra by B. A. YOUNG

Royal Shakespeare productions commonly seem better when they come from Stratford to the Aldwych, having played themselves in for a season. It is, suppose, a tribute to Peter Brook's thorough direction that *Antony and Cleopatra* seems almost unchanged.

It is still long, slow, colourless, eccentrically cast and touched here and there with moment of genius. If the four qualities I have ascribed to it suggest that it is dull, then I have been misleading. Certainly I found the last half-hour of a three-and-a-quarter-hour evening in need of a shot of adrenalin; with no visible moment for the enormous couple to end their days in, they seem to take an unconscionable time a-dying, and Glenda Jackson, whose Cleopatra is at any rate lively in the earlier part of the evening, seems less at home with the prospect of death. "O, withered is the garland of the war" is breathless and chopped up.

Whether Mr. Brook, the designer Sally Jacobs, or Miss Jackson herself is responsible for her curious appearance, I don't know. She wears no kind of fiery until her death, and her hair is cut so short as to give her at some angles the look of a performing seal. But it is part of the principle on which the production seems to be founded to avoid any suggestion of visual illusion. Egypt,

Rome, and Pompey's ship are contained within a frosted glass canopy through which characters can be seen preparing to make their entrances. The play is thus reduced into a protracted quarrel between a man and a woman. Miss Jackson fills the bill admirably as the woman. Alan Howard, who more than I ever recollect, imposes intonations on the verse that go plainly contrary to the sense, will please his admirers.

But for acting truly worthy of the company dedicated to Shakespeare you must look further down the cast-list. Patrick Stewart, bald and grizzled, looking like the White King in *Alice*, speaks Enobarbus's lines to perfection, besides projecting the personality of a real veteran soldier. Jonathan Pryce, swirling his white toga around, looks and sounds splendid as Octavius. David Suchet's gangster Pompey is fine. On the distaff side, there is a sympathetic Charmian from Paola Dionisotti.

Mr. Brook, in the austere mood that has overtaken him in recent times, does not seem in care much any longer for the poetry of Shakespeare's lines. So many of the small parts are riddled off with what seems a deliberately casual sound, so that the last words of phrases often disappear into the air. This will do well enough for *The Iliad*. It ought not to be encouraged in Shakespeare.

Elizabeth Hall

Gustav Leonhardt by NICHOLAS KENYON

Even great musicians sometimes do unusual things. It is difficult to feel that Gustav Leonhardt's transcription for baroque keyboard of Bach's sixth suite for solo cello is anything but a sudden aberration by a great Bach performer. There are, of course, precedents for such transcriptions by Bach himself, and Leonhardt has previously made some from the solo violin works, but this latest sounded extraordinarily pointless. His version was, rightly, no mere rearranging of the notes. There were added counterpoints, and an attempt had been made to imitate a keyboard texture. Yet the result was quite un-Bachian; it lay at least a minor third too high in the treble register; its harmonies were baldly obvious (whereas they are only hinted at in the cello original), and all the interest of the cross-string articulation of the original was lost. Some transcriptions work: Leonhardt played another Saranade as an encore, which sat perfectly, expressively on the keyboard; but, really, it is not as if Bach

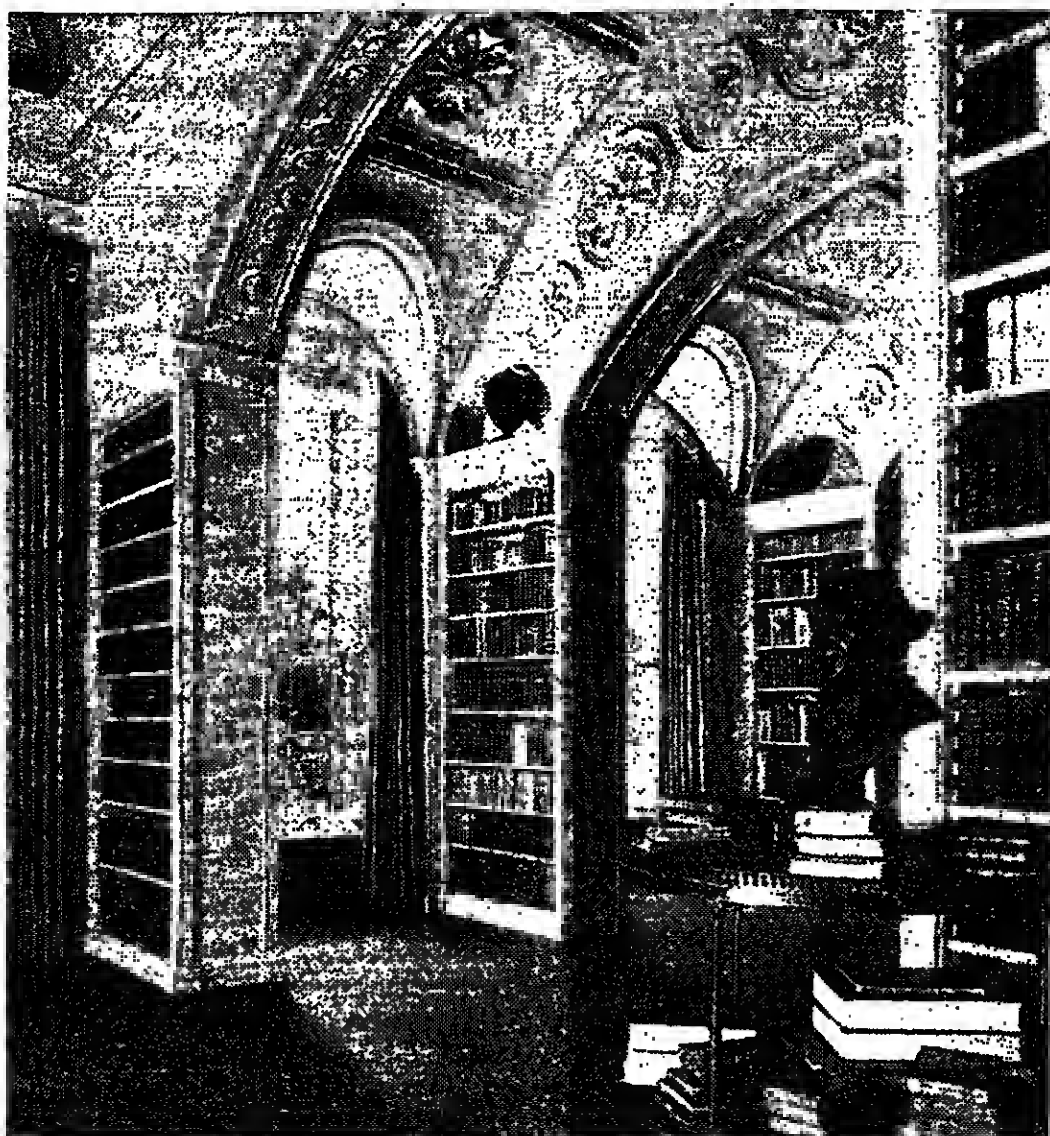
needs keyboard works adding to his output.

On the evidence of the superbly tense and concentrated first half of the recital, Leonhardt could have given us a majestic Partita or a group from the "48." He played six Scarlatti sonatas without any of the facile brilliance one so often hears - every phrase was modulated, and the D minor sonata, K.52, acquired weight and nobility. Rhythms were clear and unobtrusive; the accumulated tension of K.182 and 193 was both unusual and startling.

Leonhardt does not perhaps have the easy grace needed for French music; a group of pieces by Jacques Duphy sometimes sounded a little stiff, though the languorous anticipations of "Les Graces" and the bubbling basses of "La Dé Vaucanson" both made a fine effect. These exceptionally interesting pieces, showing the late French baroque evolving towards the early classical style, deserve a far more frequent bearing.

myriad felicities of Berlioz's orchestration. A leaden accompaniment with surely too large an orchestra - does this work really need eight cellos and six basses? - made the total effect only ponderous.

All could have been forgiven of course, had this approach contrived to produce a cogent, convincing view of the *Symphonie*. But it did not.



The Book Room, Wimpole Hall

Architecture

Wimpole Hall by COLIN AMERY

Today Queen Elizabeth the Queen Mother opens Wimpole Hall, Cambridgeshire, the fourth great National Trust house to be inaugurated this year. From July 15 the public will be able to see for the first time a house and park that is a microcosm of the history of English 18th-century house architecture and landscape design.

It was the last owner of Wimpole, Mrs. Elsie Bambridge, the only surviving child of Rudyard Kipling, who bequeathed the house and nearly 3,000 acres of land to the National Trust. She also left the majority of Kipling's manuscripts and copyrights to the National Trust with a generous endowment that has made it possible for the structure of the house to be repaired and a programme of gradual restoration to be started.

Wimpole is the largest house in Cambridgeshire and by far the most significant in terms of the number of famous architects and designers who have worked there. The earliest house was built about 1640 by Sir Thomas Chicheley, the friend of architects Wren, Pratt and May. Wimpole was added to by the Duke of Newcastle between 1693 and 1710, and by Edward Harley, the second Earl of Oxford, between 1713 and 1721. It was Harley, the great friend of Pope, who employed the architect James Gibbs to extend the house and build the great library and chapel. The chapel was decorated by Sir James Thornhill as a masterpiece of the 18th-century version of a Baroque interior. It is one of the wonders of Wimpole.

After Harley's extravagant reign at Wimpole the house was sold in 1740 to Philip Yorke, first Earl of Hardwicke and a leading Lord Chancellor of his day. He commissioned Henry Flitcroft to reface the central block and make certain interior rearrangements including a long gallery in the west wing. It was the third Earl of Hardwicke who employed Sir John Soane in the 1790s to create Wimpole's most remarkable rooms. Soane's architecture is still underrated in England and these rooms give a splendid opportunity to see how much more generous in spirit and in its sources of

reference Soane's work is when compared to European Neo-Classicism.

Soane's book room is one of the most ingeniously designed libraries to be found in an English country house. Projecting bookcases on each side of the room support grand elliptical arches decorated with fine plaster roundels. Black basalt Wedgwood urns and good Regency furniture complete the decoration of this strange and wonderful room. However, Soane's grandest achievement at Wimpole is the reception room known as the yellow drawing room. The room was designed to fill a rather awkward space and Soane's solution makes advantages of all the difficulties.

The result is a high domed, basilical room, close in plan to the picture gallery that Soane had recently completed for William Beckford at Fonthill. Lit principally from the top of the dome the room has many of the qualities that must have been present in the great spaces of the now demolished Bank of England. At Wimpole Soane also designed a splendid sunken bath that is large enough for 12 people to stand in. Even a glimpse of it today in its rather dilapidated state makes one ponder upon the nature of the entertainments offered at Wimpole in the early 18th-century.

When Captain and Mrs. Bambridge bought the house in 1939 it was in very poor shape and even larger than it is now. From 1939 to 1945 the house was requisitioned and full of troops, a large American military hospital stood in the park and the restoration of the entire place must have seemed a daunting prospect. Despite the early death of her husband in 1943 Mrs. Bambridge carried on the task of restoring and furnishing the house entirely alone. She was fond of telling the story of her father's first reaction to her purchase of the great house. Kipling walked up to the front door and into the hall in complete silence, then he turned to his daughter and said, "Bird, I hope you have not bitten off more than you can chew."

His fears were understand-

able and today the task of repairing and maintaining the house is a heavy burden for the National Trust. To date the Trust has spent £340,000 on the house and this is largely to ensure that the structure is sound. Every effort is being made to retain the atmosphere created by Mrs. Bambridge, which is a strong combination of centrally-heated decorative luxury and careful reconstruction of an 18th-century house. The Trust has resisted the temptation to redecorate a great deal and this is to be commended.

In some National Trust houses the hand of the 20th-century decorator is only too evident. At Wimpole the decision to use the great dining room with its early Victorian plasterwork as a tea room is a grave error of judgment. There is a ghastly sense of anti-climax as you pass from the saloon and breakfast room into a room full of canteen furniture. Perhaps when H. E. Kendall's stable block is repaired decorative luxury and careful reconstruction of an 18th-century house. The Trust has resisted the temptation to redecorate a great deal and this is to be commended.

A visit to Wimpole provides, apart from the joys of the house, a panorama of English landscape design from 1690 to 1830. Charles Bridgeman, "Capability" Brown and Humphry Repton all changed the original 17th-century layout. Today the two-mile-long elm avenue has been wiped out by Dutch elm disease but it is being replanted with limes and oaks. A Chinese bridge, castle ruin and large lakes are the main landscape features that remain but all of them are in need of repair. Many of the estate buildings have now been proved to be the work of Sir John Soane.

Wimpole stands as a great tribute to the spirit of Kipling's daughter but it is the spectacular rooms by Soane that provide the visitor with a real frisson of architectural excitement.

Wimpole Hall will be open to the public from July 15 to October 14 every day except Mondays and Fridays from 2-6 p.m. The house is signposted off A603 eight miles south-west of Cambridge.

WIMBLEDON BY JOHN BARRETT

Historic—but not a vintage year

IF WIMBLEDON '79 will not generally be remembered as a vintage year, there were two historic achievements—one from Sweden's 23-year-old, Bjorn Borg, and the other from the Grand Old Lady of American Tennis, 35-year-old Billie Jean King—that will be discussed and cherished as long as the game is played.

Borg's feat in winning a fourth successive singles title was not only unique in modern times (never achieved since the challenge round was abolished in 1922), but also had an epic quality about it that made his gruelling five-set final with the brave American left-hander Roscoe Tanner, one of the most dramatic I have ever seen.

Five-set finals themselves are rare enough; this was only the eighth in 24 championships held since 1946. Finals that sustain the suspense over the entire span are rarer still. All who saw it will be grateful to have been there.

It Tanner can eliminate the few blemishes, mainly of a lack in flexibility, that remain in his much-improved game, he could soon win Wimbledon.

Mrs. King's capture at last of that elusive 20th Wimbledon title, will surely remain forever unbeaten. With world standards rising so fast I cannot imagine a player of either sex ever achieving as much again. The death of Elizabeth Ryan, who was visiting Wimbledon on the eve of Mrs. King's achievement would have been an exaggeration if any novelist had devised such a plot. But somehow Wimbledon produces situations like this—both Suzanne Lenglen and Maureen Connolly died during the championships, the first in 1933, and second in 1969.

Mrs. King has been—and indeed is—a great champion though the quality of her victory with Martina Navratilova by 5-7, 6-8, 6-2 over Betty Stove (a seemingly permanent runner-up), and Wendy Turnbull was an undeniably nervous affair.

Miss Navratilova's second title, at the age of 22, revealed a new maturity that will keep her at the top of the world game for as long as she cares to reign.

Historians will have noted the first Wimbledon title for John McEnroe. The 20-year-old American left-hander won the men's doubles on Friday with his regular partner, Peter Fleming.

Wimbledon's popularity continues to grow. Despite the

decision not to admit more than 30,000 spectators at any time, overall attendance, 848,000, exceeded the 1975 record by 5,453.

The standard of officiating needs to be better. Now the umpire has the power to overrule linesmen, firm control from the outset is essential. Otherwise unscrupulous players will exploit the situation. Also, umpires must not be afraid to utilise the penalty-point provision.

HENLEY BY MICHAEL DONNE

British crew's grand win over Yale

THE BRITISH national crew, drilled British crew soon slipped into top gear and by the end of Temple Island they were ahead.

The gap progressively widened, until at the finish they were ahead by 23 lengths. Yale had some consolation, however, in that their second crew convincingly won the Ladies Challenge Plate, beating Downing College, Cambridge.

Only three out of the 13 Henley trophies went overseas this year. In addition to Yale's victory in the ladies, a powerful heavyweight crew from

Ridley College, Canada, beat their old rivals, Eton, in the Princess Elizabeth Challenge Cup for schools by 2 1/2 lengths in 6 min 59 sec.

CRICKET BY TREVOR BAILEY

Two counties can break their duck

IT IS becoming increasingly probable that 1979 will turn out to be the year of the "never had's". There are now only two first-class clubs who have yet to win a major honour. Essex and Somerset and it is likely both will break their duck this summer.

Although it is far too early for their supporters to celebrate, they could well afford to put some champagne on ice. In addition, one of them could become the best team among

the 17 counties and achieve this official distinction by "doing the double".

The really big surprise is that neither club has succeeded in carrying off a title before, now that there are four (surely one too many?) honours to be shared out among the 17 contestants.

In the past it was an altogether different story, as only the County Championship was at stake and there were usually a few great teams around—like Surrey in the 1950s with four genuine international bowlers in an era of sporting pitches, or the Yorkshire of the 1930s.

Today, the difference in the ability of the various clubs is far less, which is largely the result of bringing in cricketing mercenaries from abroad.

It is not mere coincidence, or lack of talent that has stopped Yorkshire winning anything for eight years, but there must also be some doubts as to whether it really has been a levelling up.

If one examines what some of the counties have been masquerading as attacks this summer, it is necessary to go back to the 1940s to find quite so many insipid bowling line-ups. One reason is, of course, that in limited-overs cricket it is not essential to howl out the

opposition and even in first-class matches the first innings is artificially controlled.

Essex and Somerset have been close to success in recent years. Essex were literally within a decimal point of winning the John Player League, while Somerset, having defeated Essex in a marvellously close Gillette semi-final last year, were robbed of the John Player League by just losing to Essex in the last match.

The main reason why these two sides are doing so well is that they possess that vital balance, a batting line-up with class and depth, a varied attack, team spirit, and a few players of exceptional ability plus several good ones fighting for places.

This last asset was illustrated on Saturday when Essex made 338 for five, which included an opening partnership between Graham Gooch and Alike Denness of 170 on a far from docile pitch.

It is interesting that Denness, who elegantly stroked a fast, and most attractive century against Sussex at the weekend is not certain of a place in the final on Saturday week, though it is difficult to see how one can afford to leave him out in a match of that importance. Gooch has developed into a

powerful, attacking opener and is in the process of establishing himself as an England regular. McEwan is a destructive stroke maker who would be playing automatically in Tests, if he had not been a South African.

Lever is comfortably the leading wicket taker, Philip is a typical Caribbean product—lively bowler and hard-hitting batsman—and there are two above average "bits and pieces" cricketers, Turner and Font.

Keith Fletcher remains one of the best batsmen around with figures to substantiate the claim in domestic and international matches.

These are some of the men mainly responsible for Essex having established such a commanding lead in the Schweppes Championship that they will take some catching, while they must also fancy their chances in the Benson and Hedges final against Surrey.

Somerset are pressing hard in the John Player League, chasing Essex in the County Championship and have serious designs on the Gillette Cup.

Their disqualification because of their controversial declaration against Worcester has probably acted as a spur and made them even more determined to win something this season. I think they will.

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Monday July 9 1978

The Post Office: a monopoly goes on trial

BY JOHN LLOYD

MPs deserve more

THE MOTIONS to be debated in the House of Commons on Wednesday... As for the Government's attitude towards the Review...

Harmful The Government's concessions, such as they are, seem to have been inspired by the stormy reaction from MPs, especially Tory MPs, when it was announced last month that the increase would be paid in three equal stages...

Rigidities in the bloc

LAST WEEK'S meeting in East Berlin of Warsaw Pact Communist Party officials whose job it is to maintain ideological purity would doubtless have passed off with a yawn had the Romanian delegate not drawn attention to it by leaving early when it became clear that what was required was another condemnation of China...

As for the Government's attitude towards the Review... The reason for this was that MPs' salaries had suffered unduly from the failure of previous governments to implement recommendations in full...

The point is only in part humorously meant. The corporation is continually in the Top Ten of the nation's Aunt Sallys: we now expect to communicate efficiently by written word and voice across long distances, and when we are baulked of that expectation...

Revolt The final choice, of course, is up to individual MPs when they vote on Wednesday. It may be difficult for them to demand more for themselves when the Government has recommended otherwise...

supposed to be governed by its principles. Euro-Communism and most of the other attempts to reconcile theory with national traditions and the modern world have been developed outside the Communist bloc itself and keenly treated with deep suspicion...

Propaganda up the system are all the coercive tools available to a totalitarian system. These include: tight controls over information; and the media; subtle graded privileges for the elite; and the risk of losing them, and in reserve, the willingness of the Soviet Union to use its own economic, political and military force to preserve its hegemony...

Throughout the bloc, governments have sought to consolidate their power through slowly increasing material prosperity in the process they have created many of the aspirations, but fewer of the actual rewards — of a consumer society. Inevitably this process has been based on the western model — which is after all the only such model there is...

What makes this state of affairs more serious is the Soviet Union's failure honestly to confront the full implications of Stalinism, and the refusal to allow Marxist-Leninist theory to develop in a way which takes into account the enormous changes which have occurred in the world since 1917 and make it genuinely attractive to the millions of people who are...

show trial Last month the East German regime stepped up its repression of individual thought and expression by expelling eight writers from the Writers' Union and following this by introducing a maximum sentence of up to 12 years jail for East German citizens who perform the traitorous act of speaking their mind to Western newsmen...



Sir William Barlow, Post Office chairman limits to management

RECENT weeks, the Post Office has suffered the most sustained and serious attack on its competence since the last time it suffered a sustained and serious attack on its competence...

Performance guide Exhibit four: international comparisons are fraught with difficulties, since no two countries are substantially alike geographically or socially...

Going rate at the heart of things Five thousand Bank of England staff may have been given a salary increase. As you would expect, it has gone through without any undignified publicity...

Travel tactics French holidaymakers will soon be able to travel abroad at their friendly neighbourhood tobacconists. The trade mark will be "Blue Holidays", the colour of a packet of Gauloises...

Closed book As the advertisements for Ladbroke proclaim, the organisation "loves a bet". However, a sense of propriety has compelled it to close the book on whether it will lose its London casino licences in the current hearings in front of the good men and women of the South Westminster magistrates court...

Old campaigner The Sandinista guerrillas in Nicaragua are about to receive their most distinguished and oldest recruit, Dr. Luis Adolfo Siles Salinas, who was President of Bolivia in 1969, last week celebrated his 84th birthday in the Balmoral Hotel in San Jose, Costa Rica. He was reading...

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INTERNATIONAL COMPARISON OF POSTAL SERVICES. Table with columns for UK, BELGIUM, FRANCE, W. GERMANY, ITALY, NETHERLANDS, SWITZ., U.S. and rows for Purchasing Power Parity price of 1st class letter, Number of letters posted, etc.

* Indicates that figures are the latest available. All other information derives from UPU statistics of 1976 (except for U.S., which are from 1977 Report and Accounts of USPO).

Exhibit two: the Government White Paper, on the Post Office, a response to Carter, was published a little under a year ago. It confirmed a target of a return of 2 per cent on turnover for the postal business...

Exhibit three: the Post Office Users' National Council—the statutory consumers' body—published a report on the delivery performance of the mail services in January of this year. It found that first class mails achieved their target of 93 per cent of letters delivered by next working day, while around 95 per cent of second-class letters were delivered by the third working day...

Performance guide

Exhibit four: international comparisons are fraught with difficulties, since no two countries are substantially alike geographically or socially. However, the table which accompanies this article, produced by the Post Office and hitherto unpublished, is a guide to how we perform...

The defence could go on, but it rests here. The case for the prosecution should be preceded by a general preamble. Over the past two weeks, Sir William Barlow, his senior postal executives have made it...

MEN AND MATTERS

Going rate at the heart of things

Five thousand Bank of England staff may have been given a salary increase. As you would expect, it has gone through without any undignified publicity. But the Bank's last quarterly bulletin spoke of the need for wage restraint, so it must be helpful to the rest of us to know how they will fare in the coming year...

Travel tactics French holidaymakers will soon be able to travel abroad at their friendly neighbourhood tobacconists. The trade mark will be "Blue Holidays", the colour of a packet of Gauloises...

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clear that, in their view, management of the modern postal service has well-defined limits. By far the most important of these is the strength of organised labour. If the Union of Post Office Workers refuses to allow something to happen, it will not happen...

Post Office management is thus, quite consciously, in the position favoured by Disraeli, who appreciated at least some of the effects of the progressive enfranchisement of the lower orders: it must seek to educate its masters. The main lesson is also the main cause for the prosecution: it concerns productivity...

Exhibit one: productivity in the postal business—roughly measured as throughput of mail per man—has been on a downward trend for years. Eight years ago, 175,000 postmen handled the 11.9bn. parcels of mail a year; now, around the same number cope, sometimes inadequately, with 2bn less. That is a big drop for any business...

In extension, it must be said that there has been a reversal of the downward trend in recent years. That reversal, however, as postal executives admit, is wholly due to an increase in mail volume unaccompanied by equivalent increases in staff. Working practices are no better, and may have continued to worsen...

Exhibit two: quality of service, which is generally taken to mean the frequency with which the business can deliver first and second class mail, has declined. Its targets are now to deliver 93 per cent of first class post by the next working day, and 96 per cent of second class post by the third working day (down from second working day two years ago). Last year, it was just about managed; this year, it has not—in June, first class mail was around 88 per cent; it is getting a little better, but the summer holiday season, with staff shortages, will probably make that little a very little...

Exhibit three: value for money, a rather difficult concept to determine, has also been calculated by Mr. Corby in the course of research for a forthcoming book. This index is constructed from Post Office figures on service provided for the first class letters divided by the real price index. The resulting index, taking 1969 as the base year, shows a decline of more than 50 per cent...

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Devolution of power

Both Mr. Briscoe and Mr. Cockburn are keen on more devolution of power and responsibility in pursuit of productivity. Mr. Cockburn is encouraging his postmasters to become businessmen, concerned not just with cost-cutting but also with dreaming up ways of generating more income...

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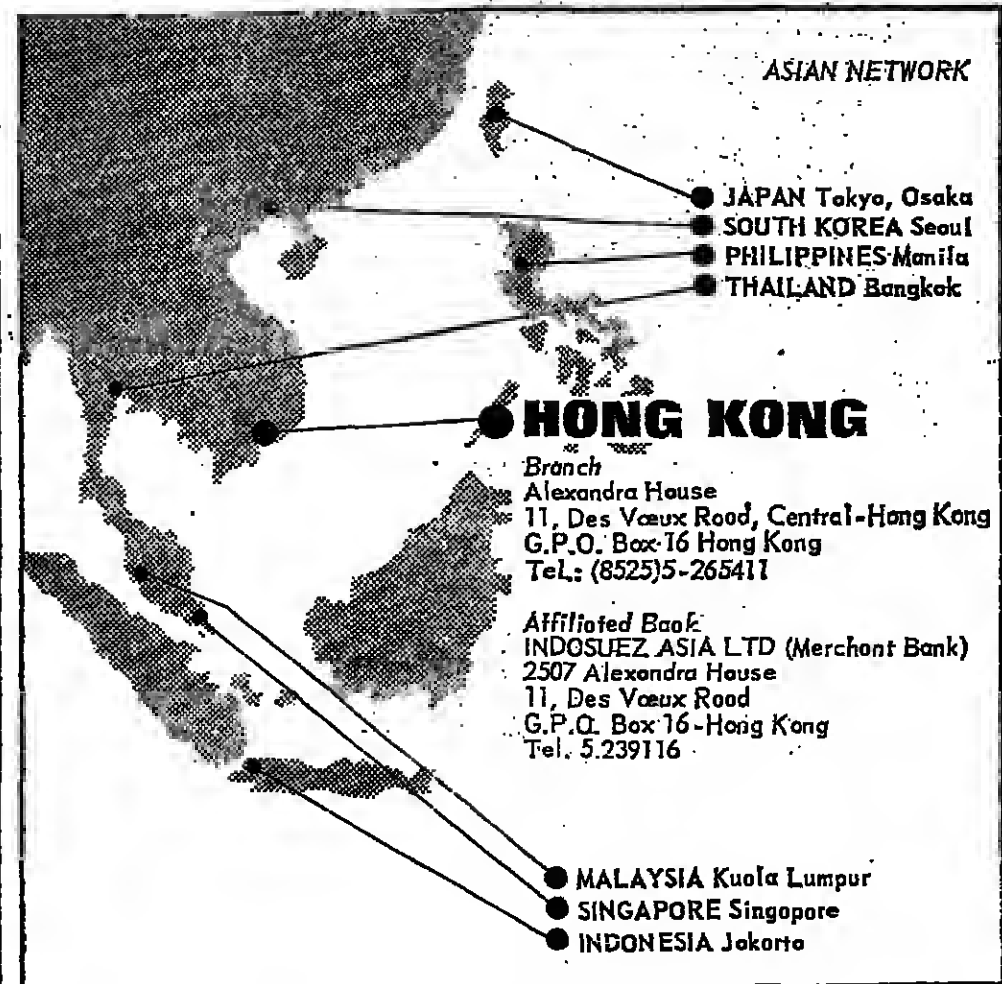
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Under the watchful eyes of the Hong Kong Marine Police (left foreground), the Vietnamese refugees aboard the "Huey Fong" finally meet an end to their 28-day ordeal outside Hong Kong waters.

Following an upsurge of optimism over Hong Kong's long-term future, the colony has since shown considerable resilience and flexibility in the face of a massive refugee/migration challenge. But a still more pressing problem is the need to keep the colony's economy moving through some choppy waters immediately ahead.

Choppy waters ahead

By PHILIP BOWRING

HONG KONG has long enjoyed and profited from the freedom of the passions of international affairs accorded by its status as a political entity. But recent months have shown just how little control Hong Kong has over its own destiny.

Confronted by what, for a while, seemed a tidal wave of immigrants, legal and illegal, from China, it could do little but appeal to China to relieve the pressure. And confronted with a massive flow of boat refugees from Vietnam it realised that its curious international status made it impossible to follow the same callous policies towards the refugees as its South-East Asian neighbours—even assuming that a Chinese refugee community had it in its heart to condemn the refugees to likely death at sea, by pushing them away.

Ironically, the immigrant and refugee issue followed hard on the heels of an upsurge of optimism about the long-term future of the colony flowing from China's more liberal internal situation and the enhanced importance it is now giving to foreign trade.

Just as ironically, the response to the refugee/migration challenge has shown up much that is best in Hong Kong—the resilience and flexibility by which an intensely overcrowded city can absorb into its economy and into its society tens of thousands of newcomers, with few apparent problems. Equally, the China euphoria had given a boost earlier to the speculative property fever which is a recurrent disease in Hong Kong, and fuelled an outburst of new-rich consumerism which was a joy to importers of items such as Mercedes-Benz cars and strobe lights for discotheques, but produced a huge and unsustainable trade deficit.

The human inflow crisis proved Hong Kong's powerlessness. But it perhaps has done more than anything in recent years to improve the City-State's image overseas, where it is still often presented as a fetid sweatshop, where a handful of colonial rulers and Chinese millionaires lord it over toiling millions of Chinese refugees. Its humanitarianism did not go unnoticed.

Its governor, Sir Murray Maclehoese, in visits to Europe and the United States, proved an effective promoter of Hong Kong as a State facing a massive problem but refusing to be panicked. Many outsiders were amazed at the economy's apparent ability to handle the inflow without an increase in unemployment.



Behind this fishing junk in Hong Kong harbour is seen the 52-storey Connaught Centre, Asia's tallest building.

BASIC STATISTICS

Area	404 sq. miles
Population	c. 5m
GDP (Provisional Estimate)	HK\$51.6bn
Per capita	HK\$11,447

TRADE 1978

Imports	HK\$64.7bn
Exports	HK\$44.9bn
Imports from UK	\$382.4m
Exports to UK	\$521.5m
Currency	\$1 = HK\$10.1874

China's aim must be to maximise revenue from Hong Kong, perhaps by allowing a higher rate of immigration into the colony which would have a lasting impact on wages and living conditions in Hong Kong. Now that Chinese people hear more about Hong Kong, and as the leadership in China faces the task of delivering on some of its promises, China may not want to see a further widening of the gap in living standards between itself and the capitalist enclave.

But that may be unduly pessimistic. Historically, Hong Kong's economic achievements—on a per capita basis—have been at least as good as, for example, Singapore, which has almost all immigration. Meanwhile, there is anyway a more pressing problem: to keep the economy moving through some choppy waters immediately ahead.

Coincidence

In fact, there was a fortuitous coincidence of an economic boom at the same time as the influx. Without the boom, the influx might have caused unemployment and social problems as newcomers and older residents competed for jobs. And without the influx of labour—most of the migrants are of working age—the overheating of the economy would have had more serious consequences than has so far been the case.

As it is, the influx issue has tended to overshadow the fact that Hong Kong will not find it easy to adjust to the sharply lower growth, particularly in money supply and credit necessary to get back to equilibrium, especially if the new oil crisis induces stagnation in Eastern markets. Both the government and the leading banks must take the blame for helmed action to stem the overheating, which has led to a sharp fall in the local currency and taken price inflation into double figures.

The brighter side has been

ON OTHER PAGES

The economy	IX	Property	X
Relations with China	IV	Textiles	XI
Relations with Japan	V	Electronics	XII
Tourism	VI	Mass Transit Railway	XIII
Relations with Britain	VI	New Towns	XIII
Banking	VII	Infrastructure	XIII
Trade	VIII	Housing	XIV
Shipping	VIII	Local Government	XIV
Commodities	IX	Immigration	XV
The Stock Exchange	IX	Film Industry	XVI
Diversification	X	Gambling	XVI

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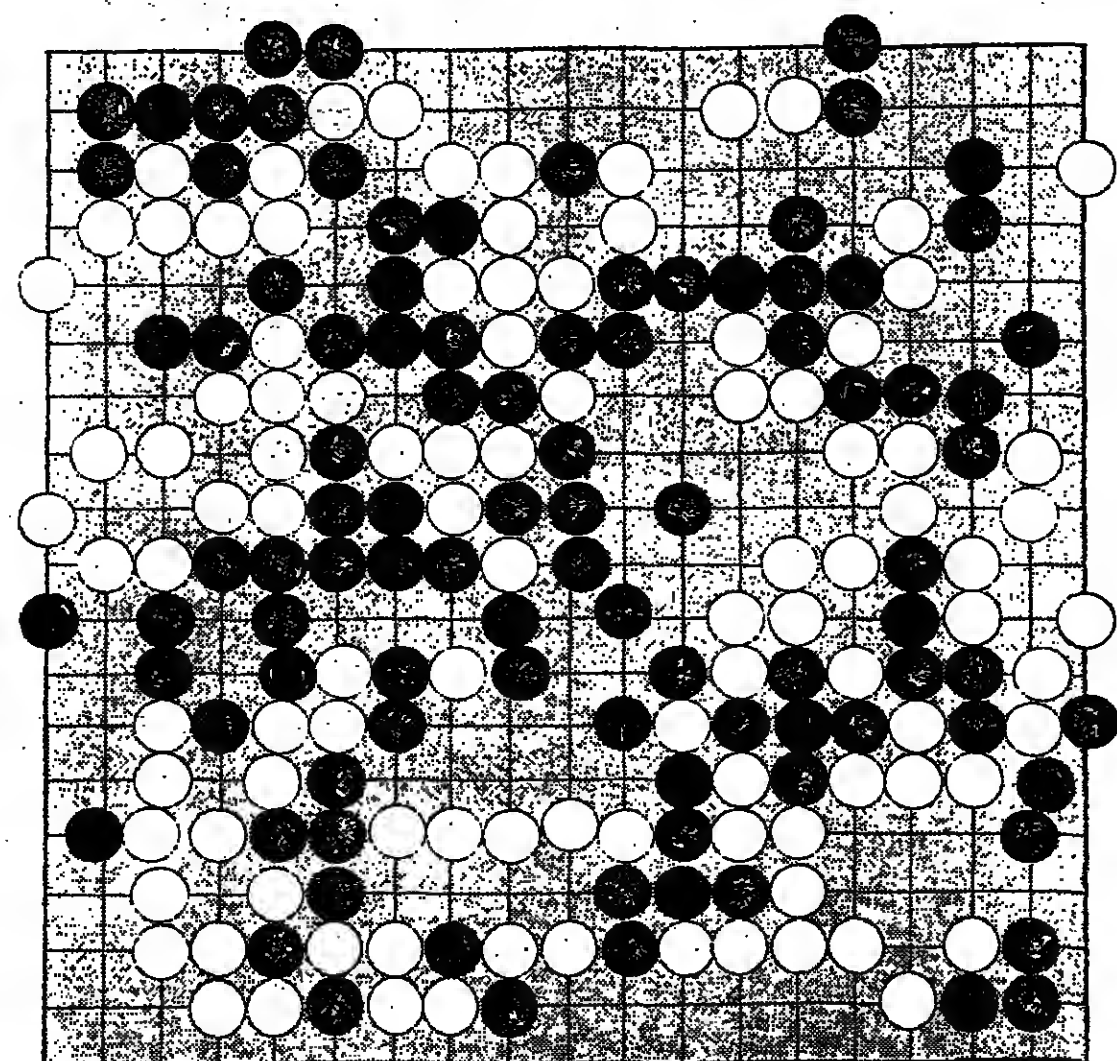
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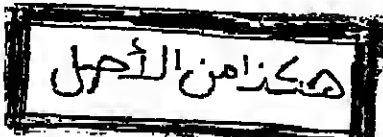


Go, thought to be one of the oldest games in existence, originated in China over 3,000 years ago and was later adopted by the Japanese. One of the greatest games of strategic skill, the idea is to secure as much of the playing area as possible. (Here, Black is in a strategic position.)

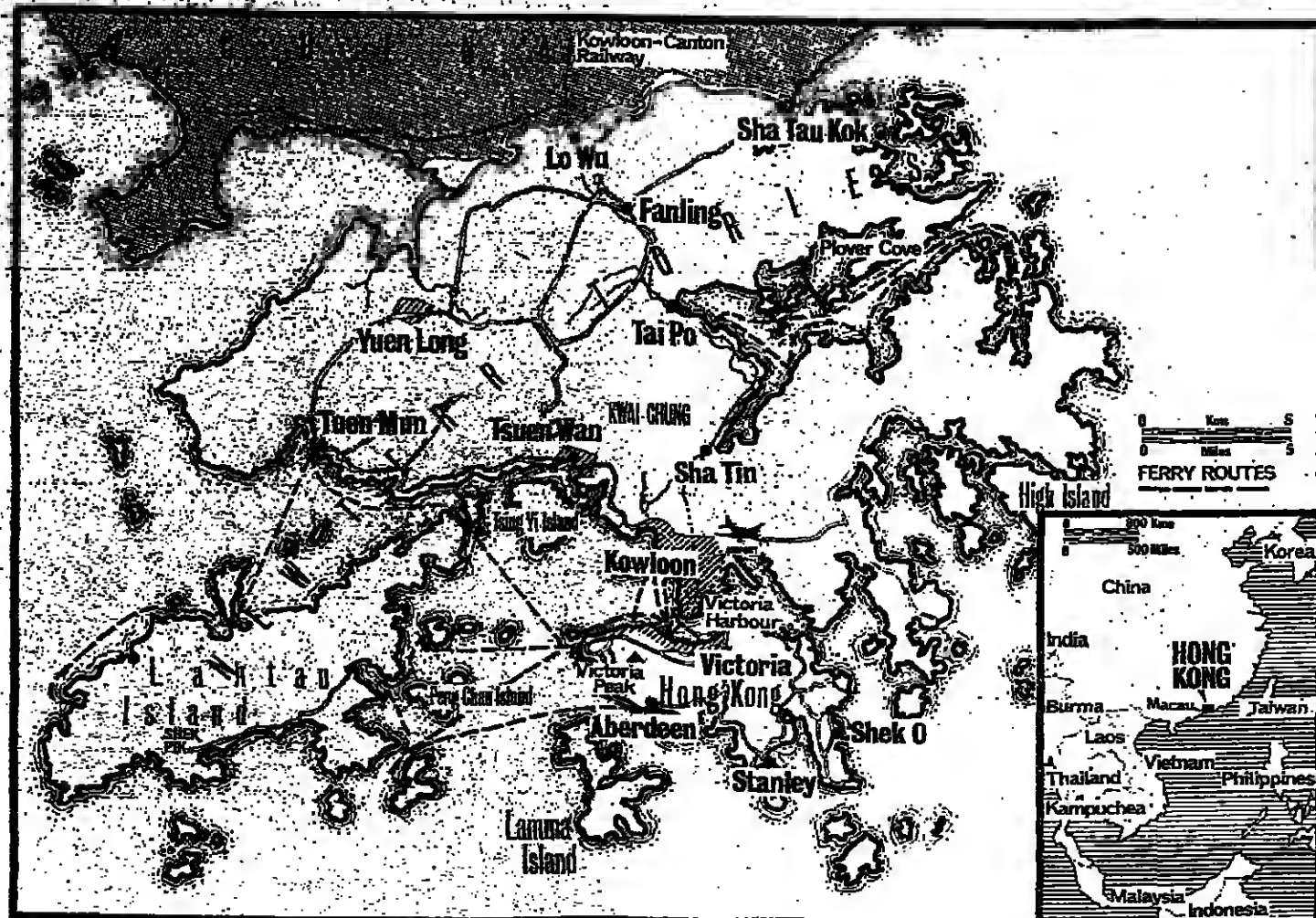
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HONG KONG III



Weighing the risks of expansion

HAVING SPENT three years proving that it can perform at least as well as the more Government-directed economies of Taiwan, South Korea and Singapore, Hong Kong is in the process of proving that a free-wheeling approach has its dangers too.

Even after allowances are made for the two recession years—1974 and 1975—that preceded it, the performance of the pro-Hong Kong economy in the three years 1976 to 1978 was remarkable. Real GDP expanded by 16 per cent in 1976, 12 per cent in 1977 and 10 per cent last year.

In comparative terms it was a record three years for Hong Kong which placed it well ahead of Singapore and at least on a par with South Korea and Taiwan—a singular achievement. Korea's phenomenal growth is accounted for by the move of people from low-productivity agriculture to higher-productivity industry, a process which does not occur in already urbanised Hong Kong.

Nor are Hong Kong's GDP gains attributable to heavy investment in capital intensive industry such as heavy chemicals and synthetic fibres—as in Taiwan. Hong Kong's gains have been due very much to increased productivity, which has been more a result of greater skills than injected capital.

Impulse

The spending potential was generated by the export boom back in 1976 when exports jumped 28 per cent. It was a long time making itself felt, but the pent up consumerism finally made itself felt with increases in consumer demand of 17 and 16 per cent in 1977 and 1978 respectively. And it is an impulse which is proving very difficult to slow in the face of political optimism and the apparent failure of previous automatic correction mechanisms within the economy. But slow it must.

The boom in domestic demand has had important consequences. There has been a rapid widening in the visible trade deficit. Last year this reached HK\$9.1bn, more than twice the previous record set in 1974 when Hong Kong was hit simultaneously by an export slump and sharp, oil-related slipped its marginally.

In fact, Hong Kong's export performance was comparatively poor last year. The U.S. market was booming and Korea and Taiwan achieved growth rates roughly double that of Hong Kong. The villain was the domestic demand which caused a rise of 20 per cent in retained imports in real terms and diverted at least some of the available resources away from the export sector.

Such has been the momentum that despite attempts by the Government to restrain demand primarily through exhortation

THE ECONOMY PHILIP BOWRING

and some modest monetary measures, an even bigger trade deficit is expected for 1979. In his budget, Mr. Philip Haddon-Cave, the Financial Secretary, forecast a growth in real terms of 10 per cent for imports and 8 per cent for exports, implying a deficit of about HK\$ 12bn. With figures available up to April, Mr. Haddon-Cave's deficit forecast is looking about right or perhaps a little low. For the first four months of the year, the deficit was HK\$ 4.58bn. Domestic exports rose 37 per cent, re-exports 38 per cent and imports 43 per cent.

The latest figures are difficult to interpret with any accuracy owing to the recent violent fluctuations in the Hong Kong dollar exchange rate. Optimists take comfort from the fact that overall exports are now beginning to rise for the first time since 1976, to a level of HK\$ 10.7bn, a sharp rise in the value of total trade. The fall in the value of the Hong Kong dollar may have worsened the terms of trade, but this trend will right itself as enhanced competitiveness is reflected in export demand.

A more pessimistic view is that buoyancy of exports will not last even despite improved competitiveness because of the supposedly impending U.S. recession and the uncertainty in other markets caused by the latest oil supply and price problems.

What is beyond reasonable dispute is that the current level of trade deficit cannot be supported for very much longer without another serious decline in the value of the currency. The trade weighted exchange rate index at about 93 (1971=100) has fallen by 11 per cent over the past year and by 20 per cent from its early 1978 high. It briefly collapsed to 90 in April when jittery bit the local foreign exchange market. The decline is almost certain to mean a period of double-figure inflation: the impact on consumer prices would have been much worse already but for chance favourable movements in prices of rice and some other foods.

The visible deficit will have been partly offset by services earnings. But by how much is not at all clear. Earnings from tourism have continued to increase rapidly—the number of visitors last year rose 17 per cent. But expenditure by Hong Kong tourists abroad has risen rapidly, too.

In the Government's (admittedly far from accurate) estimates, Hong Kong was only barely in the black on travel account in 1978—expenditure of HK\$ 4.15bn and earnings of 4.67bn. That could even mean a red entry in 1978 because of the upsurge in travel to China. There has been also a surge in transfers of money to China.

Government estimates of income (a national figure of 5 per cent of total exports of accounted goods and services

months of interest escalation, lending is only now just beginning to slow down. The ratio of loans to deposits of the banks has risen more than 80 per cent, compared with under 70 per cent a year ago.

Many banks clearly have had to rely on large borrowings from parents overseas or foreign inter-bank markets to maintain liquidity. There is an indication that banks have over-committed themselves to loans which have yet to be fully drawn down. Sooner or later interest rates are likely to squeeze the property sector very severely. There is clearly a danger of incomplete building, forced sale and other hallmarks of the pricking of a property bubble. After some alarms earlier this year, the market is calm. But Mr. Haddon-Cave's warning that the longer adjustment was delayed the more painful it would be is still relevant.

Symptoms

It has proved easier to describe the symptoms than the cause of Hong Kong's domestic boom. Construction spending was up 19 per cent in 1978 following a 32 per cent rise in 1977 and an unparalleled surge in car imports which increased the number of private cars on the road by nearly 20 per cent in just a year.

Government tends to blame the banks for pushing a buoyant economy into dangerously overheated one. Bank advances have grown by 45 per cent over the past year. The private sector tends to blame the Government for its own spending surge, particularly the mass transit railway.

The Government in fact has accumulated surpluses of about HK\$2.5bn over the past two years, but they have not had the deflationary impact that might have been expected because they have been kept mostly on deposit in Hong Kong rather than invested abroad. As a result, they have been available as a base for expanding bank credit.

The Government was in a cleft stick. To have expatriated the surpluses would have reduced credit creation, but also would have exacerbated the weakness of the Hong Kong dollar.

The current boom is the first that Hong Kong has had since it moved to a floating exchange rate in late 1974. Neither the Government nor anyone else had realised how much conditions had changed as a result. The big current account deficit, the need of acting to reduce money growth was actually found to be able to coexist with a very rapid growth of money and an even more rapid growth of credit.

The Government's own spending did not help matters. Having lagged way behind target in previous years owing to problems in implementing major capital projects, Government capital spending took off with a vengeance, rising 90 per cent in current prices in the fiscal year ending March 1979.

Meanwhile, expenditure on the mass transit railway—which must count as the public sector even though it is not consolidated in Government accounts—progressed at a high though stable level. Government is now trying to slow down its public works programme but that cannot be done quickly. Government total spending is budgeted to increase 13 per cent this year. That is about in line with GNP at current prices.

The Government's anti-over-heating campaign has been aimed mainly at the banks. A combination of the leverage of the Government's huge deposits with exhortation from Mr. Haddon-Cave have helped push up the best lending rate to double the banks' best lending rate from late October to its current record 13 per cent. However, even after several

Handwritten signature or mark in a box.

Growing up together

The Swire Group has been in Asia since 1867, and we've seen some changes. Hong Kong, our main base in the region, has enjoyed incredible growth and development over the years.

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Cathay Pacific Airways, our airline, has developed in just over thirty years into a fleet of Lockheed Super TriStars, Boeing 707s and soon-to-come 747s linking South East Asia, Japan, Korea, the Middle East, and Australia. It's supported in Hong Kong by other growing companies including an aircraft engineering company, sophisticated air catering facilities, an air cargo terminal, and related airport services.



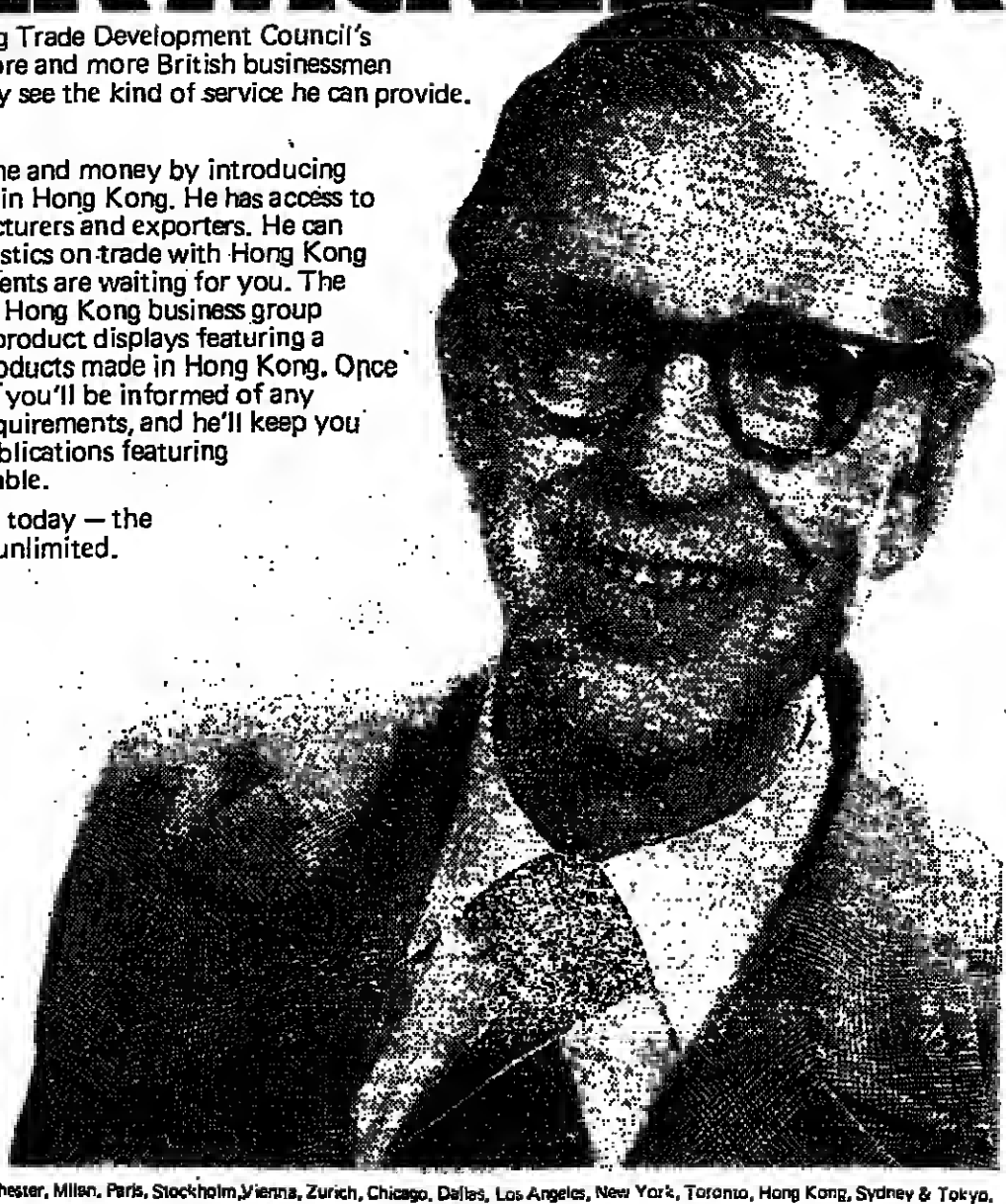
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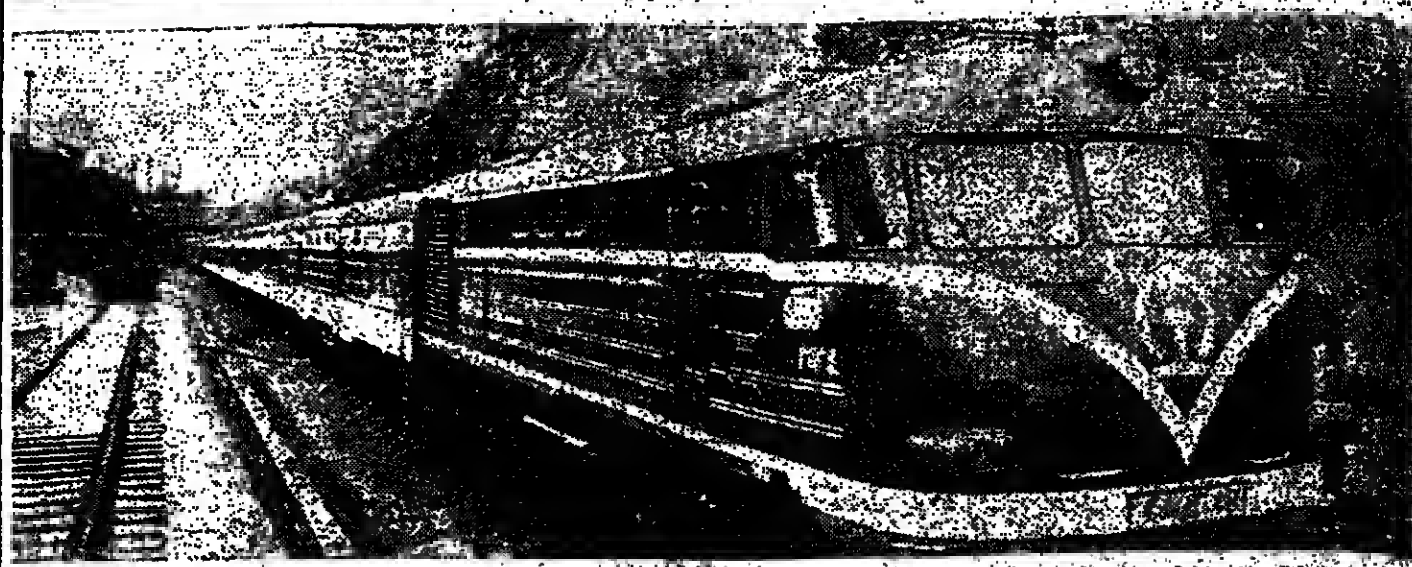
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HONG KONG IV



A direct express through-train passenger service from Guangzhou (Canton) is seen approaching its destination in Kowloon, Hong Kong. The train, with ten passenger coaches, operates one service each way daily.

Two-way traffic building up

RELATIONS WITH CHINA

MELINDA LIU

HONG KONG, gateway to China. This has traditionally inspired Western companies to set up offices and station analysts in Hong Kong, and to pay handsomely for a tedious monitoring of commercial to-ing and fro-ing across the border. The slightest whisper of deals being clinched would trigger full-scale commercial pilgrimages into China. An ongoing commercial relationship with Peking, it was once thought, could not exist without a strong Hong Kong connection.

Hong Kong's role as a physical gateway into China is almost certainly never likely to disappear. But its significance is losing ground these days to the concept of Hong Kong as a support base within the overall Chinese scheme. The view from the other side of the equation is becoming more evident — that Hong Kong is also a Chinese gateway to the outside, as well as a crucial factor in many projects planned on the Chinese side of the border.

As other cities forge air links with Chinese cities and commercial offices in Peking become a reality, Hong Kong's role as a geographic jumping-off point and monitoring station for China will diminish in relative importance. What will continue to proliferate, however, are the steadily increasing examples of Hong Kong participation in the neighbouring Chinese province Guangdong.

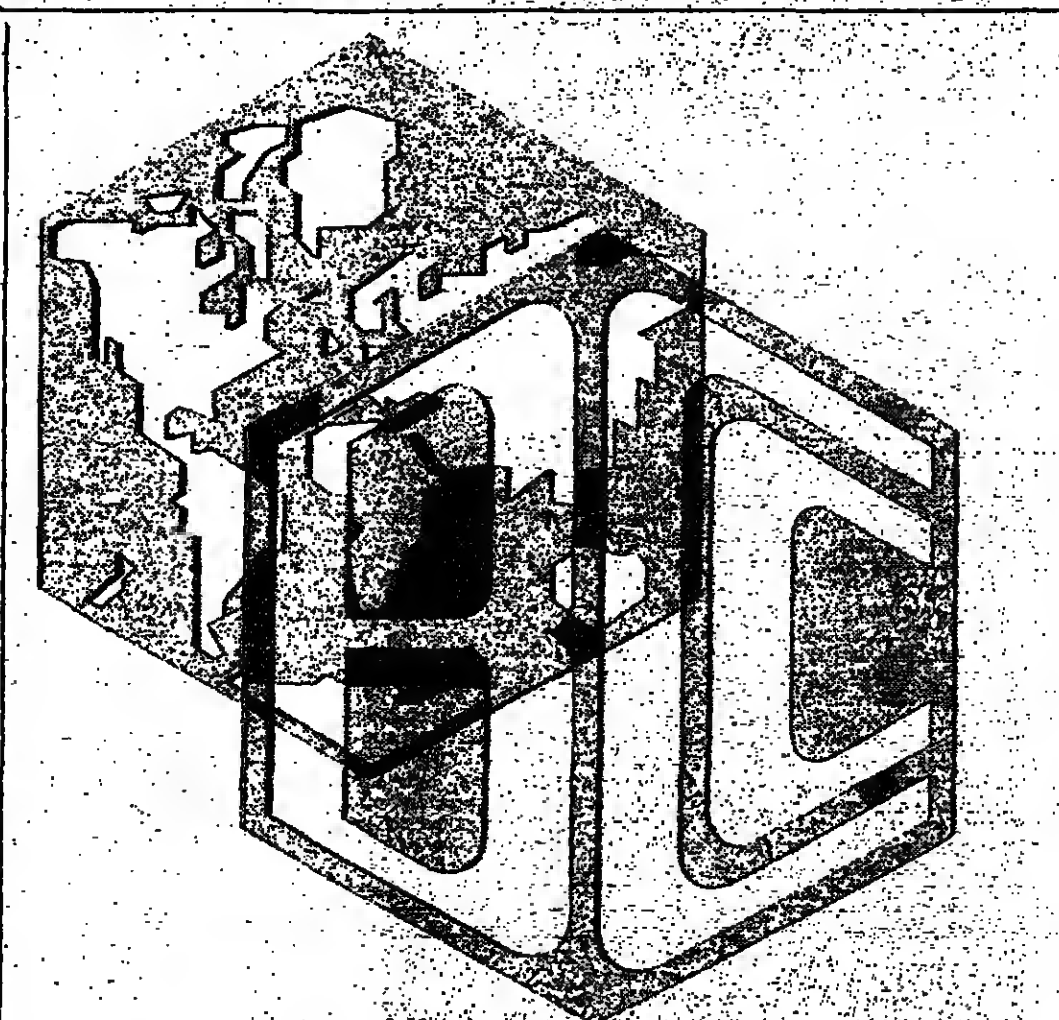
During the recent National People's Congress session held in Peking, delegates from Guangdong reported that business representatives from Hong Kong and the nearby Portuguese-administered territory of Macao had signed more than 300 contracts for manufacturing projects in the province. The contracts involve processing and assembly work, some of them utilising raw materials supplied by the foreign buyer.

Moreover, earlier this year the areas directly adjacent to Hong Kong and Macao — called Shenzhen and Zhuhai respectively — were elevated by Peking to the status of special municipalities. The upshot of this move will be increased allocation of national investment and manpower to Shenzhen and Zhuhai, with the aim of developing them into foreign trade and tourism zones which will directly involve Hong Kong and Macao.

Hong Kong's role in Guangdong was also part of the message Chinese officials passed to Hong Kong Governor, Sir Murray Maclehoese, during his trip to Peking earlier this year. Chinese Vice-Premier Deng Xiaoping requested Sir Murray to ask Hong Kong investors to "put their hearts at ease" in what was seen as the highest level assurance to date of Peking's interest in maintaining a healthy investment climate in Hong Kong.

At the same time Chinese authorities at all levels emphasised their hopes that Hong Kong would play an important role in China's development programme, particularly in the growth of neighbouring Guangdong Province. Sir Murray said provincial planners from Guangdong were especially straightforward in expressing their belief that investment in Shenzhen, just across the border from Hong Kong's New Territories, would be particularly attractive to investors in Hong Kong. Featuring readily available land, labour and proximity to the self-administered territory, Shenzhen is likely to be China's model for a number of export-orientated zones to be developed throughout the country. China has reportedly already spent nearly \$4m on improving roads, power supply, railroads and water supplies in the predominantly rural area. These infrastructural improvements are intended to aid not only industrial development but also the creation of a tourist area in Shenzhen which will attract 5,000 to 10,000 tourists daily from Hong Kong. These ambitious plans envisage a wide range of facilities — from a hot springs spa to a

China involving foreign participation. Peking-controlled interests in Hong Kong took the step last summer to enter into their first joint equity arrangement — a residential and commercial construction project in the New Territories — with Western groups. Thirty per cent of the project is held by Peking-controlled Kin Kwong Investment and Sun Company, two leading Hong Kong Land and Jardine Matheson holding 15 per cent and 5 per cent respectively. Despite these indications of an escalating interaction on both sides of the border, however, a tripartite alliance from Peking, London and Hong Kong continues to shroud the original status of the New Territories lease. Under this 1999 agreement the Chinese Imperial Government leased the New Territories to Britain for 99 years. Although the Communist Chinese regime has claimed to not recognise the 19th-century document the 1997 expiry date still triggers an occasional anxious thought among Western investors. Even so, the increasingly permeable border lends more and more support to the philosophy of "opening the lease." One of Hong Kong's leading optimists on this issue is Sir Lawrence Kadourie, chairman of China Light and Power, which began selling power to Guangdong earlier this year. He has repeatedly stressed that Hong Kong is really a suburb of China and offers this formula for the years between now and 1997: "A common-sense, imperceptible, slow merging of interests."



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Part of Asia's History

To July 1832, during the Ching Dynasty, a small public notice in the Canton Register announced the formation of Jardine, Matheson & Co.

In England, William IV was on the Throne; in the United States, Andrew Jackson was in his first term as President; and in China these were the pre-Treaty days, ten years before the founding of Hong Kong.

But since that time, in almost a century and a half of trading, the Company name has remained unchanged, except for the addition of "Limited" in 1906 when the old firm became a private limited company.

Two years after Jardine, Matheson & Company had put up their sign in Canton, Parliament abolished the East India Company's monopoly of the China Trade. That same year Jardine made the first private shipment of tea to the United Kingdom and the pattern had been established, a pattern which was to see Jardine emerge as the greatest of all the Far East traders.

The scope of the Company's activities, and the areas in which it operates have progressed far beyond those early trading days. But Jardine have never lost the drive and initiative of their founders. Indeed, the history of Jardine is a history of firsts — from the first steamship to ply the Pearl River to the first Eurodollar

debenture issue by a Hong Kong company.

From the top of the 52-storey Connaught Centre, Jardine's Head Office now looks out over a Hong Kong which is almost unrecognizable from the "barren rock" where the original partners bought the first "lot" of land sold in 1841. That same year, Jardine moved their headquarters from Canton to Hong Kong, playing a major role in the founding of Hong Kong and, subsequently, in the City's emergence as one of the great trading centres of the world.

In 1848, Jardine bought the first land lot offered for sale to foreigners in Shanghai, and soon opened an office there. Branches in Foochow, Tientsin, and other major trading centres followed. In 1859, the first lot of land sold to foreigners in Yokohama, Japan, was purchased by Jardine and an office was established — followed by branches in Kobe and Nagasaki.

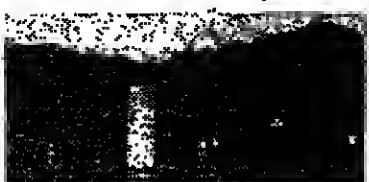
In the century which followed, much of the Group's enterprise centred on China, and later Hong Kong. Jardine's listing on the Hong Kong Stock Exchange in 1961 marked the beginning of public records of the Group's financial position — records which show steady and continuous growth.

In 1973, the Group doubled its net worth with two major acquisitions — Theo. H. Davies & Co., Ltd, an old established Hawaiian and Philippine trading company, and Reunion Properties

Co. Ltd in the United Kingdom.

1975 was another year of continued growth with the acquisition of Gammon (Hong Kong) Ltd; the purchase of 75 per cent of Zung Fu Company Ltd and 53 per cent of Rennie Consolidated Holdings Ltd. 1975 also marked Jardine's fifteenth year as a listed public company. The period since 1961 has seen the Group's net assets grow 21 times from HK\$108 million to HK\$2,316 million, net profit increase 3,648 per cent and adjusted earnings per stock unit multiply 25 times.

Since 1976 Jardine have acquired 40 per cent of the issued capital of Transporting and Trading Company Inc., a Liberian company with widespread interests, mainly in Saudi Arabia. Today Jardine are a major international organization, with



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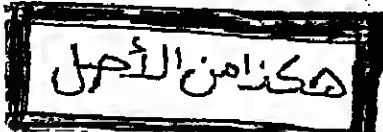
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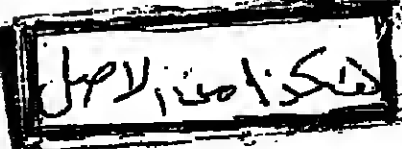
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Moves to tackle trade deficit

HONG KONG's trade imbalance with Japan is considerably larger than Britain's and has been growing at least as fast. But the context within which the two Asian countries conduct their relations is so different from that of UK-Japan relations that Hong Kong has only recently started to focus on its Japanese deficit as a serious problem.

Japan has been the No. 1 exporter to Hong Kong for most of the past decade, supplying it with essential industrial raw materials and with cars (as well as a portion of the equipment required for the Mass Transit scheme). Hong Kong sells textiles, toys, watches and other light industrial products to Japan, but has found the Japanese market far harder to penetrate than the markets of Europe and North America. As a result Japan ranks only fourth among Hong Kong's overseas customers, far behind the leading three (U.S., West Germany and Britain).

Hong Kong's bilateral deficit with Japan exceeded \$1bn in 1974 and passed the \$2.5bn level in 1978 (when Japan's exports were worth more than six times as much as its imports). Figures for the first four months of 1979 suggest that although Hong Kong exports have been growing fast, the deficit is still widening slightly. It could exceed \$2.8bn for the year as a whole if current trends continue.

Imports

The Hong Kong Government's position on bilateral relations with Japan is that the deficit can and should be reduced but that artificially cutting back on Japanese imports is not the way to do it. This makes sense in view of Hong Kong's total dependence on trade as a way of life and on Japan as a source of raw materials for its industry. Since imports from Japan cannot be artificially reduced without damaging the local economy, efforts at reducing the trade imbalance must focus on the promotion of Hong Kong exports to Japan.

RELATIONS WITH JAPAN

CHARLES SMITH

and this is precisely what the Colony has been trying to do harder than ever since the end of last year.

In November 1976, Hong Kong despatched a top level economic mission to Tokyo, led by the Governor and including the chairmen of many top local companies such as Jardine Matheson, the Hong Kong Bank and the World Wide Shipping group. The mission told its Japanese hosts of Hong Kong's concern at the trade imbalance problem and suggested that one way to solve it might be for Japanese industry to step up its investments in the Colony (on the theory that Japanese investments in neighbouring Asian countries have tended to generate exports from those countries to Japan).

Imbalance

The Hong Kong Government's attempt to link investments with exports seems to have been questioned in Japan but its expressions of concern about the trade imbalance as such gained a sympathetic hearing. On the suggestion of the Japanese Foreign Minister, Mr. Sunao Sonoda, the two countries established a Hong Kong Japan Business Co-operation Committee late last year.

The committee met for the first time in March and is expected to father a series of sub-groups which will look at specific problems limiting access for Hong Kong products to the Japanese market. The level of Japanese membership of the committee (including presidents or chairmen of companies such as Toray, the Tokuy Group and Sumitomo Chemical) suggests that Japan at least wishes to appear to be taking a positive attitude towards the Hong Kong trade problem.

Hong Kong's big success in sales to Japan has been in the area of fur clothing (an achievement which has astonished the Colony's own exporters who never apparently made any special effort to develop the market). Its sales of non-fur clothing on the other hand have been extremely disappointing, both in relation to sales in Western markets and when compared with the sales to Japan of competitors such as Taiwan, Korea and (increasingly) mainly China.

Hong Kong's Government believes that this lack of success (which has left Hong Kong with a net deficit on its Japan textile trade) can be put down to the fact that Japan has only 20 or so textile investments in the Colony compared with the several hundred in Korea. In Japan the explanation more usually offered is that small Japanese textile trading houses which have close connections with opposite numbers in Korea and Taiwan simply do not happen to have the same links with textile producers in Hong Kong.

The attitude of Japanese investors towards Hong Kong appears to be that the cost of land in the colony is so high that only specialised types of investment are likely to be profitable. The types concerned have to be capable of being accommodated in the "flatted" factories that make up much of Hong Kong's industrial area and should preferably also demand a high standard of skilled manual labour.

Example

Watchmaking is the classic instance of such an industry and it is no accident that top Japanese watch manufacturers such as Seiko, do have a presence in Hong Kong. More "basic" types of electronics manufacture such as colour TV assembly are seen by the Japanese as being more suitably accommodated in Singapore, Taiwan or Korea.

Trade and investment are not the only links between Japan and Hong Kong. Japanese banks are well represented in the Hong Kong financial community and Hong Kong ranks as the third most important source of investment in Japanese securities (after the U.S. and Western Europe). Last but not least Japanese tourists account for roughly a quarter of all foreign visitors to Hong Kong. Trade, however, remains the key strand in the relationship and the one which stands in most need of adjustment.

A MIDNIGHT scramble up 60-ft towers made out of huns and bamboo scaffolding is the centrepiece of Hong Kong's most unusual festival. But only a handful of tourists watch the bizarre event, because it is not widely publicised and takes place on an island with virtually no accommodation for visitors and no late-night ferry service.

So, the colony's 2m visitors continue to miss such colourful events—and spend 64 per cent of their HK\$5,100m a year on shopping.

The drawbacks are clear. Many of the goods purchased are imported, which must be taken into account when assessing the industry's real earnings. And shopping sprees are vulnerable to currency fluctuations, as was shown in 1977-78 when per capita shopping expenditure fell almost 10 per cent, as currencies of some major markets weakened against the Hong Kong dollar.

There is, of course, an element of swings and roundabouts in this, for in the same year expenditure by Japanese tourists—the second largest group—rose as the yen appreciated against the Hong Kong dollar. Jewellery tops the list of shopping items for all visitors, with HK\$618m (HK\$459m in 1977); followed by clothes, HK\$520m; watches and clocks, HK\$364m; cameras and optical goods, HK\$243m; and leather goods, HK\$219m. Prices have risen rapidly in recent months (the shopping index rose 13.4 per cent in 1978) and, increasingly, visitors can be heard saying that prices are higher than at home. But Hong Kong continues to offer a wide range of goods in a conveniently compact area, and the range is particularly important for tourists from South-East Asia, now the single largest source of visitors.



Duty-free prices are a major attraction for overseas visitors. Above: Tourists admire jade carvings in a typical Chinese shop.

The shops do best

TOURISM

DANNY NELSON

conveniently compact area, and the range is particularly important for tourists from South-East Asia, now the single largest source of visitors.

The South-East Asians, the biggest section of which are overseas Chinese, have their own expenditure patterns. For instance, they take tours even less than other groups (tours account for only 2.6 per cent of total tourist expenditure), they are predominantly male, slightly younger than other visitors and spend more of their money on entertainment and eating out. (They also have a bigger proportion of what Hong Kong's statistics show as "untraceable expenditure" which appears to embrace social

events, involving personal contact.) Their rise to dominance in the industry has been confirmed this year, with South-East Asian arrivals showing a 44 per cent increase over first quarter of 1978 to 141,000. Japanese totalled 148,000, but that represents a decline of 1 per cent over the two quarters. The Japanese, however, remain by far the biggest spenders.

A by-product problem for the Tourist Association is the perennial difficulty of rudeness, especially among shopkeepers. This is a general problem, but it is particularly acute for South-East Asians because, for many Hong Kong Chinese, tourism is still equated with Americans, Europeans and Australians.

Optimism

John Pain, HKTA executive director, says a recent campaign was the most successful yet, but even if his optimism is justified, there is still a long way to go.

The steady increase in visitors has meant a boom for the hotel industry with the occupancy rate in January-March running at 91 per cent. Several new establishments are under construction, but the maintenance of the recent growth rates in arrivals (17 per cent last year) would rapidly eat into the new capacity.

The spin-off from the growing number of visitors to China, one quarter of whom go through Hong Kong, should ensure a high rate of increase. There is a danger that as word of overcrowding spreads around, agents will ignore Hong Kong in favour of neighbouring capitals with rooms to spare.

The last big jump in the number of rooms was in 1973-1974, and the industry has been content to let occupancy rates rise since then. Estimates indicate an increase from 14,168 in 1978 to 21,267 in 1982. Forecasts are notoriously difficult in Hong Kong, however, because of the flexibility of the development companies.

At the end of last year, for instance, Hotel Federal, a local group, dropped plans for a hotel in favour of a commercial building because profits can be made in two or three years through selling an office block compared with between eight and 10 for operating a hotel.

At the time of the Hotel Federal announcement, it was reckoned that the cost of building a good class hotel room stood at \$50,000, excluding land, costs at around \$1,500 a square foot.

In peak periods the situation is acute, and there have been incidents of groups sleeping in hotel lobbies, and even in a hotel sauna.

Few other new tourist projects are in sight of completion. With the exception of the Sung Dynasty village, a living museum which could appeal to both Asian and European visitors and help the industry in its constant search for ways of increasing average length of stay (currently, 3.9 days).

The village has taken four years and HK\$15m to build. At HK\$70 (with lunch) and HK\$50 (snack), tours will not be cheap, but great care has been taken over authenticity—the intricate interior wood carving involved 100 men, about one quarter of all such craftsmen available in Hong Kong.

But the real crunch for the industry will come when the capacity of Hong Kong's only airport can be squeezed no further. This will occur in the mid-1980s, and if another airport is not in operation by then—either across the border in Canton or on Lantau Island—tourist arrivals are likely to be the first to be curbed.

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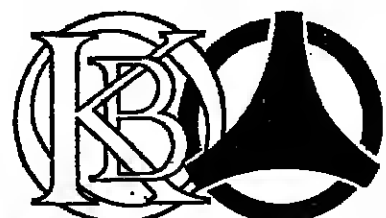
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HONG KONG VI



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Attitudes have improved

RELATIONS WITH BRITAIN

DAVID DODWELL

HONG KONG and Britain complain constantly about each other, but behind the hickering a very special relationship exists both at the level of trade and in political terms.

As Britain's leasehold on this tiny Colony shortens, so one single reality glares more starkly before the British and Hong Kong governments: Hong Kong stays British only so long as China wills it.

Hong Kong's Governor, Sir Murray MacLehose, recently acknowledged this fact: "With the consolidation of China as a great power and the withering of Britain's power in the Far East, it is inconceivable that this Colony should exist against China's will. Quite simply, Hong Kong continues to exist because China wants it to."

As Britain's colonial head in Hong Kong, Sir Murray has done a great deal to improve relations with China—and to convince the Chinese that their best interests are served by leaving Hong Kong free and prosperous. Sir Murray's official visit to Peking in April was the climax to years of patient bridge building: such a visit would have been inconceivable 10 years ago.

Sir Murray's tenure as Governor has been extended three times, and he is now due to retire in April next year. A further extension is unlikely, and the British Government must be thinking hard about a successor.

Sir Murray will be a tough man to follow. He will be remembered not just for his "great leap forward" in relations with China, but as an excellent administrator and as the instigator of far-reaching social reforms. He has become renowned for his leading role in broadening public access to health services, better education facilities and improved public housing. He has pressed hard for a shorter working week, better working conditions and more sports and leisure facilities. He is also closely linked with firm action taken against corruption in Hong Kong. People mystically refer to his charisma—most call it "gravitas."

As for a successor, one option is certainly not open: he (or she) will not be local and will not be Chinese. Communist China has come to terms with the anachronism of British colonial control of Hong Kong, but any sign of a reversion to local Chinese rule will make its "laissez faire" attitude increasingly hard to adhere to. As one close aide to Sir Murray noted: "With Taiwan on the sidelines, China finds it extremely difficult to cope with the idea of two Chinas: the idea of three Chinas would be intolerable."

Successor

Sir Murray is inevitably coy about possible successors, and it is probably fair to assume that the new Conservative Government in Britain has more pressing issues on its plate at the moment. By November, however, a new choice will be imminent.

Even now, there are certain broad requirements which make the list of possible successors very short: Hong Kong is no longer a small economy. With a total trade of about \$11.7bn in 1978, it is in the big league of world economies. So any new Governor will have to have a sound international reputation. He will have to be familiar with the affairs of East Asia, and have sound experience of China in particular. He will also have to follow in Sir Murray's steps as a man of "gravitas."

One anachronism which a new Governor will probably have to tackle is that of the colonial administration which still survives in Hong Kong. This still relies heavily on expatriate workers, mainly from Britain who are in many cases widely resented by the local Chinese.

A significant expatriate workforce is justified on the grounds that the Communist Chinese would be unhappy to see too much political clout devolve to locals: again the fear of three Chinas rises to the surface.

But as an increasingly large proportion of Hong Kong's Chinese population completes secondary and tertiary education, and as the British colonial service withers at the roots, so the case for employing expatriates rather than Chinese to perform many senior administrative jobs in government becomes increasingly flimsy. The perks that go to expatriates—mainly in the form of housing assistance—are increasingly resented when locals feel that they themselves could do the same jobs better.

When most British people think of Hong Kong—and vice versa—they probably do not think of the political and colonial links, however: first and foremost they will think of trade. It was trading prospects which first attracted Britain to Hong Kong, and trading links still dominate today.

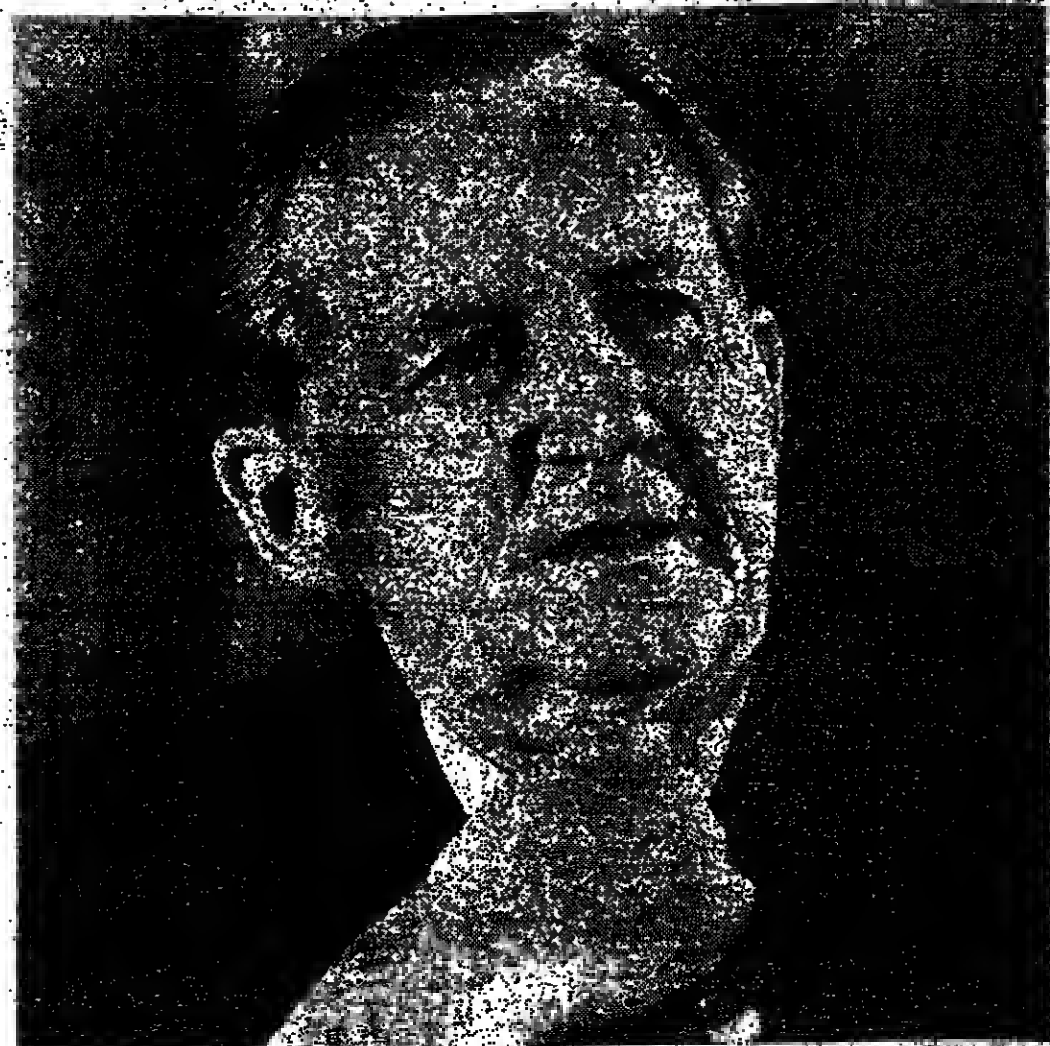
Britain is Hong Kong's third largest export market, behind the United States and West Germany. Britain imported HK\$3.87bn worth of Hong Kong exports in 1978—9.5 per cent of Hong Kong's total exports. Hong Kong is Britain's second largest market in Asia, behind Japan. This tiny colony of about 5m people imported British goods worth HK\$2.97bn in 1978—about 4.7 per cent of total imports.

But trade relations have soured in recent years. Hong Kong's businessmen have long been a prime mover behind the demands for protectionism inside the European Economic Community, while Britain's traders have resented Hong Kong's growing trade surplus with Britain and insist that the Hong Kong Government does more to redress the balance in bilateral trade.

It is true that the protectionist lobby is powerful in Britain—particularly in the textile industry which is so dear to the hearts of Hong Kong traders. It is also true that the British Government strongly pushed for global limits on the import of certain goods into the EEC. But beyond this, Britain's Senior Trade Commissioner in Hong Kong, Mr. Derek March, insists that Britain has been an active defendant of Hong Kong's trading interests. He argues that Hong Kong's aggrieved traders should be thankful that the British Government—along with other European governments—resisted so many of the demands made by the protectionist lobby at home.

In fact, Hong Kong's traders have not conspicuously suffered as a result of quotas imposed on exports to the EEC and the United States. The quotas applied to the quantity of items exported to the EEC, and not their value. So by improving quality, traders have been able to improve profit margins while the volume of exports has remained static.

They have also circumvented quotas by expanding exports of goods not covered by them: for example, fur and leather garments—not restricted by any quotas—have been boom sectors



Sir Murray MacLehose, whose tenure of office as Governor General of Hong Kong has been extended three times, addresses a Press conference in London recently. As Britain's colonial head in Hong Kong, he has done a great deal to improve relations with China.

for exporters over the past year. So in 1978, the value of Hong Kong's exports to Britain rose by 28 per cent; the value of textile, cloth and yarn exports rose by 26 per cent. Neither figure implies that Hong Kong is suffering gravely as a result of protectionism.

Mr. March bluntly points out: "Hong Kong can't expect to be treated like a tiny colonial exporter any more. With an overall trade of HK\$11.7bn in 1978, it is a major international economy. In the first quarter of 1979, exports to Britain rose by over 80 per cent, while Hong Kong is now the 28th largest economy in the world. It can no longer expect to be treated with kid gloves."

Complacent

Hong Kong's businessmen give short shrift to complaints that the Colony imports too few British products, they claim. British businessmen have long been complacent about the Hong Kong market, taking it very much for granted. Mr. David Jefferson, Hong Kong's Economic Services secretary, is blunt: "Quite frankly, the British attitude to trade with Hong Kong was quite disgraceful. They were just not trying very hard."

Mr. March accepts this criticism in large part—but claims that things have begun to change in the past two years. In this period, British exports to Hong Kong have leapt by 76 per cent, with British companies snapping three major contracts worth around HK\$4bn. GEC is to supply a power generating plant in the Kwunloon Electric Supply Company; Balfour Beatty is to build a transmission line for China Light and Power; and the Mass Transit Railway, due to start operation in October, will use British-built rolling stock.

Mr. March adds: "Only 4.5 per cent of Hong Kong's total imports come from Britain—and that's not good enough. More British businessmen should realise that Hong Kong is a straightforward market—and by that I don't mean easy. It is big by any standards, with an import controls, no exchange controls, with English as the business language. And what's more there's a great deal of sympathy for us British."

"I ask British businessmen when they last looked at the Hong Kong market. In 1958 total imports were just HK\$4.5bn. In 20 years they have grown to HK\$11.7bn. It means Hong Kong must be a market worth talking about."



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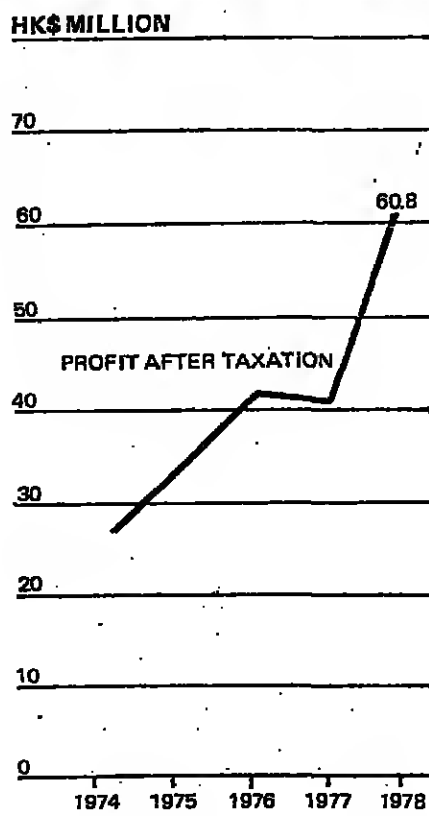
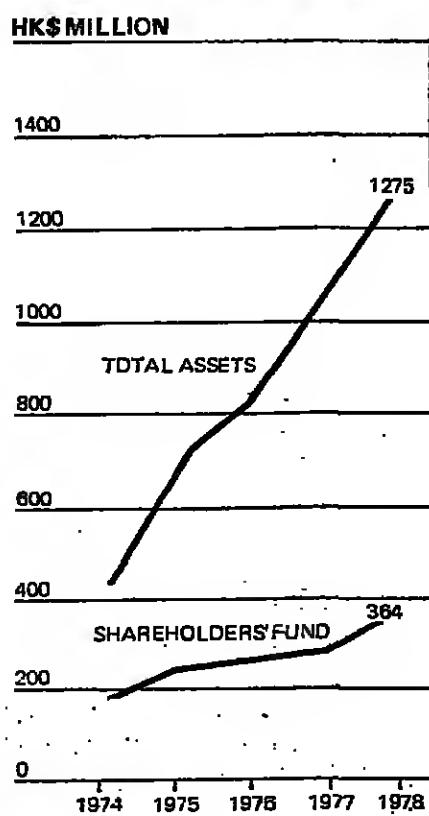
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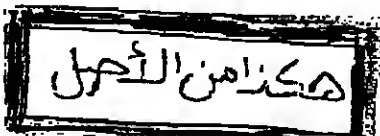
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HONG KONG VII

Tighter regulations on money supply

AFTER SEVERAL years of relative quiet in the domestic banking scene in Hong Kong has recently been undergoing some sharp changes in a variety of directions.

There is a change in relationship between the banking industry and the Government, and one between the local banks led by the Hongkong and Shanghai Banking Corporation and the foreign banks. In the background is the outward-looking policy of the Government, the consequences of which cannot yet be easily determined. The most important change has been that the Government has decided against its will but in accordance with its better judgment, that money is too important a matter to be left entirely to bankers. From May last the Government acquired for the first time powers which would effectively allow it to exercise a strong direct influence on money supply. It amended the Banking Ordinance, the law which governs bank operations, to reduce its own short-term deposits (up to seven days) with the banks as interbank deposits, requiring 100 per cent liquidity cover rather than ordinary deposits, requiring only 25 per cent cover.

This apparently minor technical change was actually a radical step towards using the Banking Ordinance not just as a means of prudent supervision of individual banks but of influencing the rate of growth of money supply and the behaviour of interest rates. Government deposits currently account for some 8 per cent of the banks' Hong Kong dollar deposits totalling HK\$70bn. Shifting between long and short term can have a powerful impact on the need for liquidity of the banking system in general and thus its ability to increase credit. The Government took this power because it came to realise that it had some responsibility for trying to ensure a degree of monetary stability—but that mere exhortation to the banks to do what the Government deemed desirable was not sufficient.

Chided

Early in the second half of 1978 the Government began to get worried about the continuing rapid growth of credit which it considered was leading to overheating of the economy and weakening of the balance of payments. In September, the Financial

BANKING PHILIP BOWRING

Secretary, Mr. Philip Haddon-Cave, publicly chided the banks for not raising interest rates to cool off demand, which was expected to be in the property sector. But nothing happened. Upward movement in rates only started after the Government moved to neutralise part of its own Hong Kong dollar balances through a swap agreement, by which it acquired foreign assets without having to depress further the exchange rate by selling HK dollars. Thus began a dramatic escalation in interest rates. By May the agreed best lending rate of the two leading banks had reached a record 13 per cent, more than double what it had been just six months before.

The underlying reason for the rise was not difficult to find. Bank credit for the first quarter of 1979 has consistently been more than 40 per cent higher than a year previously.

Loans grew 3.7 per cent in April to HK\$6.1bn, where they are 45 per cent above the same month in 1978. On an annualised basis the rate of growth is still far too high and in late June the chairman of the Exchange Banks Association urged members to show caution in new lending. However, they made such substantial loan commitments last year that rapid growth may continue until drawn down.

The massive trade deficit which has been a major consequence of the money growth spurred a run on the Hong Kong dollar in April, forcing a further upward rise in interest rates. At one time the local currency collapsed to HK\$30 to the U.S. dollar and its trade-weighted index to 90 (December 1971 = 100), before recovering to around HK\$5.09 at the end of June, with the index at 90. Two years ago the index was at 115.

Hong Kong's old system of automatic adjustment was found not to be working under a floating exchange rate system. Under a fixed rate a current account deficit contracted which it considered was leading to overheating of the economy and weakening of the balance of payments. The Government rejects the notion that a central bank is

needed to control the situation. But it is gradually expanding the role of the monetary affairs branch which manages the Government's very large reserve assets and thus can be a major influence on both money supply and the exchange rate.

Credit in fact has expanded very much faster than money supply. Bank deposits increased only 25 per cent in the year to end April, when the loans-to-deposits ratio reached a near record 82.2 per cent against 90.9 per cent a year earlier. Average liquidity, however, between the two periods remained fairly steady in the 45 to 46 per cent range. The reason for this apparent discrepancy is that liquidity can readily be provided through offshore interbank transactions.

Meanwhile there was substantial capital inflow through the banking system, helping to sustain lending and finance. The large current account deficit (the trade deficit in 1978 was a record HK\$9bn and is forecast to hit HK\$12bn this year) apparent net foreign assets of Hong Kong banks fell from HK\$17bn to HK\$15bn over the year to March last.

BANKING STATISTICS (HK\$bn) March March '78 '79. Demand deposits 12.4 15.5, Time deposits 21.8 30.1, Savings deposits 21.8 24.3, Due to banks abroad 39.2 57.9, Other liabilities 10.9 16.7, Loans in Hong Kong 39.8 57.9, Loans abroad 18.4 18.2, Due from banks abroad 37.7 49.5, Other assets 10.1 17.7

The lending spree was probably helped along by the liberalisation of the issue of banking licences. Until a year ago only one new licence had been issued since the 1965 banking crisis. But the Government changed its policy to allow in, on a selective basis, big foreign banks. Some 30 new licences have been granted so far. Many have gone to banks which previously had finance companies and representative offices. Most of the newcomers are not especially interested in retail business.

But their arrival, coinciding as it has with euphoria over trade and finance with China, helped swell Hong Kong dollar lending. It also increased demand for funds from the interbank market. As a result the nature and role of the interbank market, not for the first time, became a bone of contention between local and foreign banks.

For much of the past year interest rates in the interbank market have been above the best lending rate. This has seriously squeezed the profits of those banks which have relied on the interbank market for their funding. They have tended to claim that local banks have been deliberately squeezing them. The locals reply that the foreigner should make more effort to establish larger deposits bases through branch networks. They say the local rate setting cartel aims to try to keep rates to the public reasonably stable and that interbank rates are naturally more volatile for long periods. In 1976 and 1977, the locals argue, interbank rates were very low.

Merits

Whatever the merits of the various claims, shortage of interbank funds is driving the foreign banks into new efforts to raise HK dollars. Most recently, Citibank launched the first bankers acceptances seen in Hong Kong. They are denominated in units of HK\$10,000, which makes them accessible to smaller investors. They have a three-month maturity and for technical reasons do not suffer interest tax. Interest is pitched higher than on time deposits but below

either interbank rate or the rates offered by finance companies.

There have also been a number of issues of Certificates of Deposit (CDS) of various sorts—some fixed rate, some floating rate, some linked to best lending rate, others following finance company rates and, most recently, others linked to high-flying interbank rates. But the diversity of the instruments has not helped the development of a secondary market in them.

The position is complicated by the diverse group of operations which come under the deposit-taking heading—consumer and mortgage finance, share dealing and discounting of post-dated cheques.

Most likely the ratios will be linked to the average maturity of domestic deposit. (They will not affect the activity of the major banks, banks which use Hong Kong deposit-taking companies as channels for international syndicated loans.) The key question, however, may not be the levels of liquidity required but the definition of that liquidity. If it is made broader than that applying to banks—for example, to include negotiable CDs or bank accepted bills—it would open up new possibilities for development of the local money market.

Official sources suggest that the deposit-taking companies—of which there are some 230—may not be as badly in need of supervision as some jealous bankers have suggested. There was particular concern about them late last year when there was a run on the largest of them all, Sun Hung Kai Finance (SHKF), a subsidiary of Sun Hung Kai Securities, a diversified financial group which is inter alia the largest stockbroker in Hong Kong. SHK lost more than 20 per cent of its 600m deposits in a few days. Big standby lines of credit had to be provided by the Hong Kong and Shanghai Bank and Paribas, the French group which earlier in the year bought a minority stake in SHK, and the Financial Secretary had to put the Government's own imprimatur on SHK's solvency.

There were fears at the time of a snowballing collapse of share and property prices leading to big problems for the financial sector generally. That might yet happen. But in fact there are few finance companies which actively bid for public deposits. Most of those which do are subsidiaries of licensed banks.

Loans

The total amount loaned in Hong Kong by the deposit-taking companies at end-March last was only HK\$10.3bn, compared with their total assets of HK\$54.9bn.

Although no comparative figures are available before 1979 it seems likely that the deposit-taking companies' overall business may stagnate as offshore business is switched into branch operations following the grant of licences to big foreign banks.

The choice between lending through a branch of subsidiary is largely determined by the lending institution's worldwide tax and administrative considerations. What is not clear is whether there is much advantage one way or the other relative to Hong Kong's own new rules on taxation of profits from interest on offshore transactions.

When first introduced in the 1978 budget the new definitions produced bowls of outrage from many bankers and suggestions that business would go elsewhere. Though the Inland Revenue has issued guidelines on the tax there is still some uncertainty as to its practical application.

Clearly it has not caused any exodus of bankers. But there has been some reluctance to put loans through the books of a Hong Kong branch. Loans abroad by Hong Kong banks fell from HK\$18.6bn in February 1978, the month of the tax announcement, to HK\$15.8bn in August. They have started rising again and went back to HK\$18.7bn in April. Any worries foreign bankers may have had about the wisdom of operating from Hong Kong because of the tax have been largely overshadowed by the optimism over opportunities for lending to China.

Meanwhile, the irony of the situation is that while China is gearing up to borrow billions of dollars it was the Bank of China which in April cut interest rates just at the time the Hong Kong dollar was under greatest pressure.

Another recent innovation in the money market includes short-term paper issued by the Government-owned Mass Transit Railway Corporation.

But the Government itself remains unwilling to issue its own paper as a means—not of borrowing, which it does not need—but of providing a liquid asset instrument for the local asset market. At present almost the only available Hong Kong dollar liquid asset other than cash is interbank deposits. It is possible, however, that that situation could change before long.

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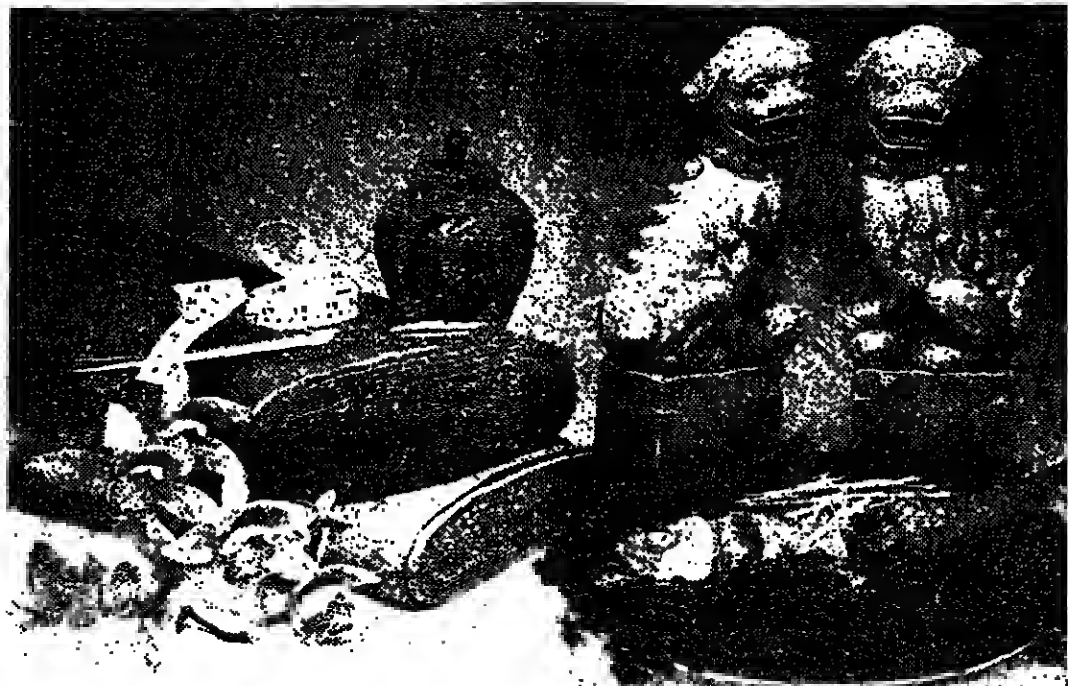
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HONG KONG VIII

Thriving on uncertainty

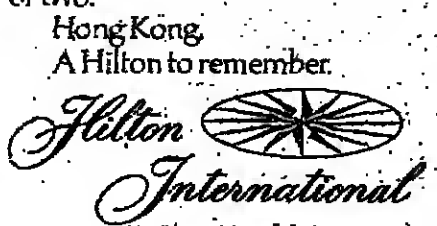
TRADE
DAVID DODWELL



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HONG KONG'S traders seem to thrive on uncertainty—but it has taken a cool nerve to cope with the uncertainties of the past 12 months.

Accelerating inflation, rising wage costs and an increasing appetite for domestic consumption has prompted no less than the Financial Secretary Philip Haddon-Cave to warn gravely that the economy is "overheating." And at the root of it all is supposed to be a deteriorating visible trade balance.

The faint of heart also hites their nails over protectionist murmurs from Europe and the U.S., and over a recession which is expected in the U.S. as energy prices soar once again. They point out that Hong Kong with no domestic market to support it, depends absolutely on thriving international trade for its wealth: if the world economy catches a cold, Hong Kong could die of pneumonia.

It is possible to take a completely different and much more optimistic perspective, however. While it is true that imports rose in 1978 by 29 per cent, the greater part of this increase was in machinery and raw materials needed for export industry—not in consumer items that would lead to higher inflation. At the same time, exports grew by 16 per cent—a growth rate that must be envied by many governments in the west.

Export growth is even more impressive when broken down into its component sectors. Textile exports—now subject to strictly applied quotas—increased by 7 per cent in value in 1978, while figures for the early part of 1979 imply a growth rate in excess of 40 per cent.

The United Kingdom—Hong Kong's third largest export market—imported 12 per cent more textiles in spite of intense protectionist undercurrents in the domestic textile industry, and indications for the early part of 1979 imply a startling 80 per

cent increase in the value of textile imports.

Exports of toys, games and sporting equipment, worth HK\$772m in the first four months of 1978, have risen by 49 per cent to HK\$1,153m in the same period this year. Watch and clock exports have risen by 55 per cent to HK\$995m in the same period.

The widely mooted recession in the U.S. is yet to manifest itself in Hong Kong's export figures: they rose by 11.6 per cent in 1978. David Jefferson, Hong Kong's Economic Services Secretary, claims that trade with the U.S. looks buoyant, at least until the autumn, and there is as yet no way of telling what will happen beyond then.

Hong Kong's exporters are particularly suspicious of Britain's role in the erection of tariff walls around the EEC: many believe that British trade officials acted as "agents provocateurs" inside the EEC, using the cloak of the EEC trade policy to disguise Britain's own urgent need to protect certain ailing sectors of industry—particularly textiles.

They also resent what they feel is growing British pressure to address the imbalance in bilateral trade (Hong Kong's trade surplus with the UK was HK\$18bn in 1978 out of a total trade of HK\$66.99bn). The U.S., which ran a HK\$7.8bn deficit on visible trade with Hong Kong in 1978, seems much more sanguine about the imbalance.

Despite Hong Kong's protests, figures already quoted show that its exporters have successfully circumvented the constraints imposed on them in the form of quotas. The EEC put an upper limit on the number of cotton shirts and dresses (for example) that they could export to the Community. So Hong Kong traders simply raised the quality of the shirts and dresses they exported, boosting margins on each item exported. They also diversified into fur and leather garments—because neither fur nor leather is subject to any quota.

The shadow of protectionism also looms large over Hong Kong exporters: they are themselves dogmatically committed

to the virtues of free trade and resent protectionism as a matter of principle. They feel that Western producers, jealous of Hong Kong's trading success, are unable to compete in a free market, prefer to hoist tariff walls rather than reorganise their own less efficient industries.

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The shadow of protectionism also looms large over Hong Kong exporters: they are themselves dogmatically committed

Kong is a sort of AC-DC center, providing a medium through which its socialist economy can "plug in" to the capitalist world outside. China's "undercover" business in Hong Kong, claims Chairman Hua Guofeng's Government, around US\$1.4bn in foreign exchange every year.

It also offers socialist China a laboratory where it can watch capitalist enterprise in operation and can pick up those tricks of the capitalist trade needed for its own development. Japanese and U.S. contractors are known to have offered rock bottom prices to win project work in Hong Kong—particularly in the construction industry. This is because they know the Chinese will be able to see their equipment or technology at work and may be sufficiently impressed to order for themselves.

For Hong Kong, China provides food. Hong Kong's food bill in 1978 was HK\$3.2bn—and most of that came from China. China exports more to Hong Kong than even the U.S.: Only the Japanese export more.

China's dramatic "four modernisations" plans have opened up two new areas of opportunity for Hong Kong—joint ventures and tourism.

Pragmatic

Both subjects were discussed with the Chinese by Sir Murray MacLachlan, Hong Kong's widely respected governor, when he blazed a historic trail through Canton to Peking in April. On both counts, Sir Murray returned optimistic: the ever pragmatic Peking Government recognises that Hong Kong is most valuable to it while it is prospering, and seemed keen to point western businessmen through Hong Kong if they want to do business with the mainland.

A close aide to the Governor explained: "The thrust of the Chinese Government is quite clear: they need Hong Kong. It was not that they love Hong Kong—they were quite honest about that. But they wanted people to have confidence in the future of Hong Kong because that served their best interests."

Jimmy McGregor, director of Hong Kong's Chamber of Commerce, claims that 400 joint equity ventures have been established in China or are close to completion. Many of these have been drawn up in Hong Kong by local businessmen, and many are set in the Shenzhen region in Hong Kong's immediate hinterland. The spin-off here for Hong Kong's trade could be immense.

Tourism could also be a big money spinner. The China

Travel Bureau in Hong Kong has found enormous demand for visits to China. Most of the visitors are American or Australian, and all have large sums of foreign exchange to spend.

Potentially just as interesting is the development of the Hong Kong hinterland as a holiday playground for the Colony's increasingly affluent Chinese population. More than 750,000 Hong Kong Chinese visited their families in Canton's great Spring Festival in February and many more of Hong Kong's 5m Chinese might be tempted by cheap holidays into the mainland. At present, anyone wanting to get away from the crowded Colony must travel to Singapore, the Philippines, or even further afield.

Some argue that the development of the Chinese mainland may undermine industries that have been the backbone of the Hong Kong economy—like textiles and low technology electronics. But as Hong Kong's economy becomes more sophisticated, so this fear seems less realistic. What is good for China is good for Hong Kong.

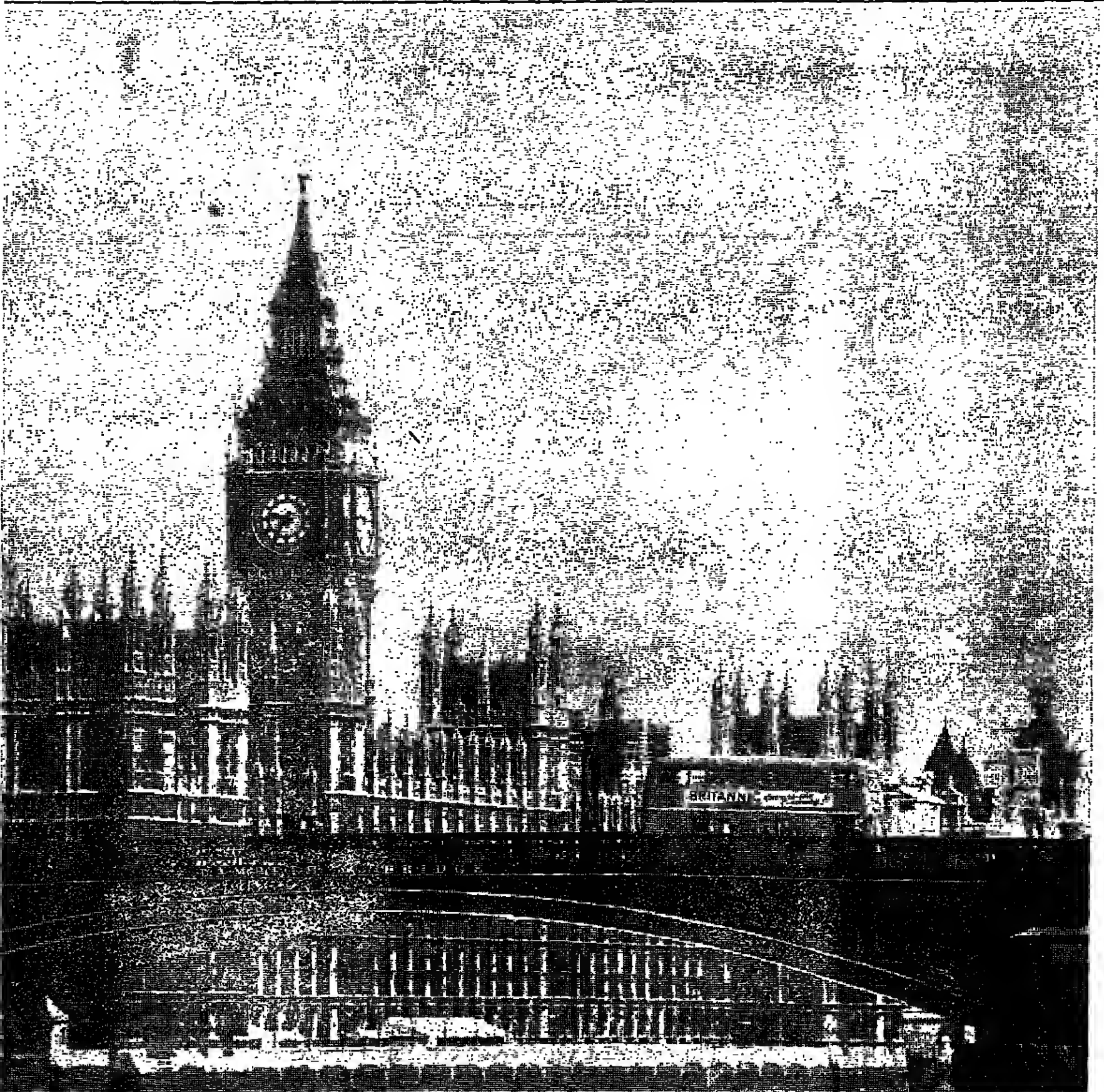
The second—and most enigmatic—Asian trading partner is Japan. The balance of trade between the two countries is so dramatically in Japan's favour that serious worries have been voiced by top Hong Kong trade officials. In 1978, Japan exported to Hong Kong goods worth HK\$1.4bn—but imported just HK\$1.85bn in return. Between 1977 and 1978 Japan boosted its exports to Hong Kong by HK\$4.3bn—more than twice Hong Kong's total exports to Japan.

Hong Kong's worries were recently put by David Jordan, director of the Trade, Industry and Commerce Department. "We don't expect our trade with Japan ever to be in balance. But it seems very odd that we can't compete in Japan against countries we compete effectively with in other parts of the world. Japan Inc. seems so tied up."

Trade leaders think there is a close link between the level of Japanese investment in a country and the amount it imports from that country. So the current strategy is to attract as much Japanese investment as possible and hope that a better trade balance results.

One other aspect of Hong Kong's trade has so far not been mentioned—but has become a cornerstone. That is re-exports. These were worth HK\$13.2bn in 1978—up by 34 per cent on 1977.

The rate of growth in the early part of 1979 has been even more rapid—about 50 per cent. It is interesting to note that while Japan still ranks as the foremost re-export market, taking goods worth HK\$2.5bn in 1978, China has leapt up the ranking during the early part of 1979. Re-exports to China soared from a negligible HK\$23m by 322 per cent to HK\$106m—implying an annual total of more than HK\$1.2bn. But perhaps it is too early to read anything too significant into this trend.



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Container chaos

SHIPPING
GEORGE LAURIAT

HONG KONG is South-east Asia's most complete shipping centre, encompassing the traditional regional trade, China shipping, the container port and international shipping community composed of brokers, bankers, lawyers and some of the world's largest shipowners.

During 1978 the port had what one liner man called a "reasonable year"—meaning that ocean-going cargo movements were up slightly to 6.72m tons as compared with 6.5m tons in 1977 and that there were no crises of the magnitude of Japan Line's near collapse which had the colony's shipowners losing sleep.

In the past five years the container port has become the most important sector of the port. During 1978, 501,464 full teus (20-foot equivalents) accounting for 4.5m tons were discharged and another 519,326 loaded with 3.7m tons of cargo. These figures were marginally down on 1977 and it is likely that 1979 figures will be just slightly ahead of the mark.

The importance of containerisation is difficult to underestimate—Hong Kong is part of the light industrial goods belt stretching from Singapore, Hongkong, Taiwan and ending in South Korea and Japan. The box is ideally suited to Hong Kong's cargoes and it really is the only effective way for them to reach their main destinations in Europe and the United States. However, conferences on the subject have proved continually to be a problem—with the Far Eastern Freight Conference's monopolistic practices and the chaos exhibited by the agreements governing the Pacific routes in short the extremes in conference practices. Shipper's Council disputes with the FEFC over freight rises are as common as Mohammed Ali's retirement announcements and the "consultations" between shippers and conferences are still far from being bargaining sessions.

It has long been a theory in the expatriate shipping community that as soon as China opened up, Hong Kong's importance as an extra port in South China and as a commercial

recognition of China and the "four modernisations" economic programme, China has begun the long and labourious process of pecking its way out of its revolutionary shell.

Hong Kong's role in this process has become more clearly defined over the year and its role in shipping is even more important than previously. The Chinese have begun building a large ship repair yard on Tsing Yi Island (industrial area) which will serve as a repair centre for the numerous Chinese ships that are repaired and fitted out for service in Hong Kong.

Although Hong Kong has always been the base for the "offshore" Peking-controlled shipping companies, it appears that these companies, at least in the short run, will increase in importance. China Steam Navigation is the senior offshore shipping company acting to coordinate the dozen smaller companies, that operate with varying degrees of independence in Hong Kong and Macao. The most active company is Ocean Tramping which buys most of the secondhand vessels and fits them out for "sale" to China Ocean Shipping Corporation, the national flag carrier.

Perhaps the most interesting development for local shippers is that China has been seeking out more local (Chinese) shipping expertise and that with the development of containerisation in China, some local lines are likely to get a larger slice of the movements.

The regional trade, once the strong point of Hong Kong's shipping community, has long been falling off as a result of larger national fleets and formal feeder line services. General cargo vessels still make a majority of the calls in Hong Kong but their importance had been diminished—though this

could change if charter rates strengthened over the next year.

The international shipping community with a membership that included the world's largest shipowner, Sir Y. K. Pao, his rival C. Y. Tung (approximately No. 6 in the world) and smaller companies such as Wah Kwong Shipping, P. S. Lee, and International Maritime Carriers, has great influence in world shipping.

Hong Kong's international shipping was built largely as a result of the "Shikunaisen" or tie-in arrangements with the larger Japanese shipping companies such as Japan Line or Sankei.

However, after the near collapse of Japan Line it was obvious that the Shikunaisen era was over and that owners would have to find a new investment mechanism. Recently, Hong Kong companies have been buying European second-hand tonnage (some of it on charter-back arrangements) which prompted one large owner to equip at a Norwegian meeting that "Hong Kong is the salvation of Norwegian shipping."

Hong Kong investment does not represent the salvation of anyone's shipping but the Community is for the first time taking an active role in international shipping organisations—Y. K. Pao is the present president of Intertrans.

Hong Kong owners seem less inclined now to invest in European second-hand tonnage on some long-term arrangement and have been making an effort to get into more joint ventures with "developing" countries. Another widely-pursued tactic is buying enough secondhand tonnage to keep the fleet relatively constant in anticipation of a market upturn which many owners—although not their bankers—feel will happen in 1980.

كازمان الأشمل

Time gap bridged

IN THE early hours of the British morning, one group of Hong Kong commodity dealers is making the world price that European dealers are eager to learn even before breakfast, while another group could be thought to be as dozzant as the Liverpool cotton traders and Paris sugar merchants who are sound asleep in their beds.

The local Kam Ngan gold market has shed its image as a trader's market whose only importance was the future it turned over. Increasingly over the past four years Hong Kong has established itself as an integral part of the world's 24-hour gold market, where trading never stops. Hong Kong bridges the gap between the close of the North American day and the start of the European session some seven hours later.

To traders on the two-year-old Hong Kong Commodity Exchange, the daily turnover worth currently nearly US\$ 300m and the eminence of the 69-year-old Kam Ngan are mouth-watering. "To say the cotton and sugar markets are quiet as the official report often records is a vast understatement—dead would be closer to the truth," said one commodity trader who spends most of his day reading the newspaper and dealing with correspondence, not with cotton futures. In some weeks no business is done in either market and the future of the exchange is now causing great concern to the floor traders.

Insiders reckon there is only enough money to last another year before the exchange will have to impose fees to meet running costs. Traders are known to have sold their head offices outside Hong Kong that they can write off their \$HK100,000 seat money. No return is in sight. Faced with the not unusual spectre for new markets of little interest, the exchange committee has one final hope—gold. What has made Hong Kong a world centre, ranking after only London, Zurich and New York in the gold spot market, the committee hopes can be repeated with the same success in the increasingly popular gold futures market, which in 1978 alone rose from eight to third place in the volume of commodity futures traded in the U.S.

Hopes for salvaging a future for the Hong Kong commodity market seem likely to be determined not by traditional market forces, but by personal and vested interests. Understandably the Kam Ngan fears it will lose some of its profitable gold business should a futures market also trade the precious metal, so beloved by Chinese over the centuries as a hedge against both economic and political instability.

The vice-chairman of the Commodity Exchange, Mr. Woo Hon Fat, is also the powerful chairman of the highly successful Kam Ngan exchange. Known as Hong Kong's statesman for gold, Mr. Woo is widely respected for his efforts to drum up international interest in the exchange: ever South Africa has feted him as a guest of honour. Nothing can affect the success of the market, which still conducts its business in

COMMODITIES

HUGH PEYMAN

Chinese dialects and trades its unique spot contracts which can be rolled over indefinitely giving a de facto quasi futures contract denominated in Hong Kong dollars and measured in traditional taels (one tael equals 1.191 ounces).

But Mr. Woo has his enemies, and his market is criticised for wanting to monopolise the profitable gold trading. His opponents, and the proponents of a gold futures market, argue that the Kam Ngan has nothing to fear from the creation of another market. They say it will complement the spot market and stimulate even greater interest in the metal. But the very traditional members of the Kam Ngan are not convinced by these arguments, and seem determined to hold on to their privilege of dominating gold trading. Many of the neutral parties in the middle of this dispute—the international bullion dealers representing almost all the major European and North American traders—feel that there is no need for another market.

Formal application for the opening of a gold futures market has not yet been sought from the Government, but supporters of the idea say it will only be a matter of months before Hong Kong adds another string to its trading bow. Quite rightly, defenders of the scheme say gold

futures is the strongest market yet to be suggested for Hong Kong. They are also correct in saying it is too soon to dismiss the viability of the sugar and cotton markets. A devastating hurricane had to criss-cross Cuba five times before the London sugar market took off, after years of lethargy. But observers note that local investors here are unprepared to wait much longer for the markets to prove themselves. Failure so far has been due to a combination of factors, some uniquely local and some that would apply anywhere in the world.

Virtues

The cotton futures market has failed largely because the all-powerful Shanghai cotton spinners were not sufficiently consulted at the outset. The one group that could give the market substantial volume has boycotted the market operated by their "country cousins" from Kwantung and continue to buy in the open market when they think the time is right. The virtues of hedging future deliveries are unappreciated by the group that even officials of the Commodity Exchange acknowledge has done very well by relying on its own judgment.

The market did not open at a propitious time for local in-

vestors. They were faced with a permanent downturn for half a year, which could be profitable to seasoned operators, but was a costly introduction for most new investors, who would have welcomed a market surging on a bull run.

One failure that has attracted little attention and has caused its organisers no worry is the Kam Ngan's silver market, which resumed trading last summer for the first time since the Japanese occupation of Hong Kong in 1941. An unnecessarily cumbersome delivery contract resulted in the initiative being still-born, but with ever increasing interest in the barometer of financial and political anxiety, gold traders have had no cause to complain about this minor failure.

But dealers on the futures market will be desperately anxious that their prayers are answered and that gold will soon be their saviour, for at the moment the futures market has earned the reputation of being a loser, and that is a tag which could be difficult to shrug off if gold fails to be the solution to its problems.

Hope for the future derives from a simple statistic: at least 10 to 15 per cent of North American gold futures turnover comes from Hong Kong. But such thinking could just be too simplistic. Asia consumes 30 per cent of the world's cotton, but this fact has not made the Hong Kong cotton market a runaway success. The question remains, can the Hong Kong Commodity Exchange cash in on the Chinese hedge against inflation and instability and so widen the service of the Colony's trading community?

Merger deadline

BEFORE THE end of the current session of the Hong Kong Executive Council, on August 1, the Government is expected to set a deadline for the merger of the Colony's four stock exchanges into one. This should quicken the so far snail-like pace toward voluntary merger, since it is widely expected that the deadline will be January 1, 1980.

Meeting such a deadline is certain to be traumatic given the obvious reluctance of the four exchanges to merge, a reluctance which has led to a great deal of foot-dragging on their part since the Government began pushing for a merger early in 1977. Short of a liquidation of the four existing institutions and the formation of one single new body, it is difficult to see how their differences can be reconciled and practical problems of accommodation overcome.

Outsiders would be justified in thinking it extravagant and rather self-indulgent for Hong Kong to boast four stock exchanges—the Hong Kong Stock Exchange, the Far East

STOCK EXCHANGE

ANTHONY ROWLEY

Exchange, the Kowloon Exchange and the Kam Ngan Exchange—when much bigger capital market centres elsewhere support only one.

This quadripartite structure is, however, partly a legacy of the great stock market boom of 1972-73, which brought some of the exchanges to birth and would have spawned more had not securities legislation been brought in outlawing further stock exchanges—just when a fifth was about to be formed.

It is also a reflection of the fact that enthusiasm for share dealing in Hong Kong can reach almost hysterical proportions at times, as shown by the fact that turnover reached a combined several billion Hong Kong dollars a day in the boom seven years ago. Betting at Hong Kong's two racetracks is also said to greatly exceed that on British courses—another manifestation of the Colony's gambling mania.

Even so, few people inside or outside the securities industry here would argue that the present four stock exchanges, with their combined membership of just over 1,000, are justified by turnover levels, which now represent only a fraction of the 1972-73 levels, and which did not rise much above HK\$ 300m a day during the mid-boom last year.

Whether rationalisation needs to go as far as proposed by the Financial Secretary, Mr. Philip Haddon-Cave—principal advocate of the one exchange structure—is not, however, something upon which there is equal agreement.

Step

There are plans in existence already for the Far East and Kowloon exchanges to share trading floors as a first step towards closer union, and possibly full merger. The Kam Ngan and Hong Kong exchanges are expected to follow suit, so that eventually the existing exchanges should be operating on two instead of four floors.

Many brokers argue that this partial merger of the four exchanges effectively into two units is as far as rationalisation needs to go, partially if the initial links develop into full mergers. Given inter-exchange trading, which exists in Hong Kong already, and the unification of trading and listing rules which is planned, the four exchanges will be as one anyway, the brokers argue.

Mr. Haddon-Cave has indicated, however, that nothing short of one exchange will satisfy the official desire for rationalisation. In his budget speech earlier this year he complained there had been "no tangible evidence" of voluntary unification.

"In the circumstances, the Securities Commission (the official watchdog of the securities industry) has advised that legislation to bring about

unification, formulated as far as possible with the advice and agreement of the stock exchanges, should be introduced; and the Executive Council has now advised that such legislation should be drafted. Accordingly, a bill will be introduced into this council later this session," he said.

The Government has argued that a merger of the four exchanges would benefit shareholders in listed companies and brokers, as well as enabling the regulatory authorities to administer a less erratic market. It would also eliminate difference in trading and listing practices.

But brokers remain sceptical of the cost benefits which Mr. Haddon-Cave has pointed to in justification of his pressure for a merger. The more wealthy exchanges, such as the Hong Kong exchange, which derives a good deal of its income from investments, foresee a substantial leakage of capital from the system in the event of existing exchanges liquidating after the formation of a single new one, and thus high costs for those brokers who choose to become members of the new exchange.

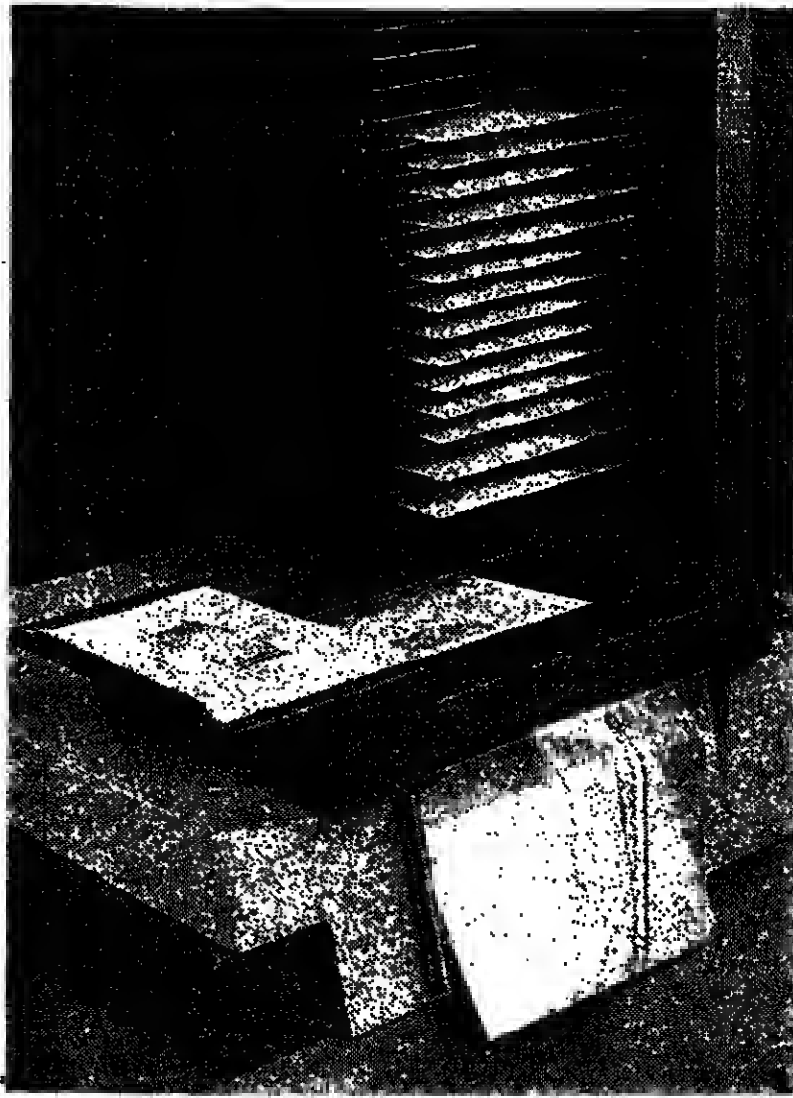
Even so, members of the Hong Kong stock exchange argued in discussions last month with securities commissioner Usdeen McInnes that unification should be brought about through liquidation of the existing exchanges. They also urged the introduction of a high admission fee for membership of the new exchange in order to encourage only professional brokers to join.

The Hong Kong exchange members argued at this meeting that full unification should wait until it was possible for the new single exchange to carry out trading on one floor.

The Securities Commission is currently drafting papers on various procedural obstacles to be overcome on the path towards unification—and possible solutions. These papers will form the basis of submissions to the Government before legislation is introduced.

As an alternative to the view that membership fees should be pitched high so as to encourage only "professional" brokers to join the new exchange, a proposal being studied is that there should be two classes of membership—full membership and associate membership, the latter carrying trading rights but not full membership rights. This is meant to provide for smaller brokers who do not do much business outside peak trading phases. This might also protect the position of such people as the lawyers and accountants who bought seats on the exchanges before the Securities Ordinance 1974 forbade them to do so, but it would hardly enhance the professional image of the Hong Kong stock market overseas. One further suggestion being examined is for a third class of member: overseas brokers.

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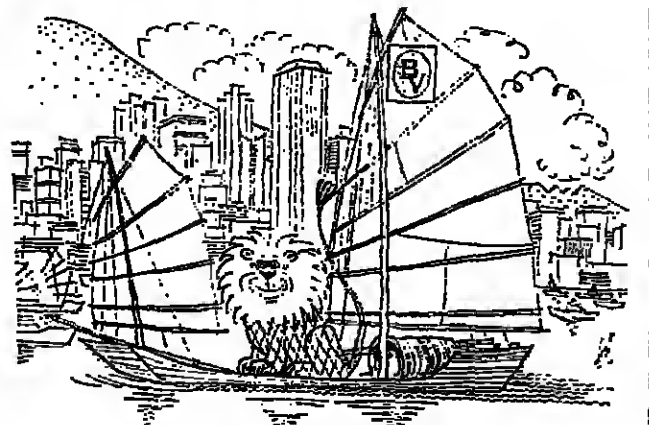
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Pressure from new economic forces

THE APPOINTMENT of a Government committee to advise Hong Kong's business barons on future industrial diversification may seem to be an attempt to teach grandmothers to suck eggs. But many of the colony's aggressively independent industrialists are welcoming this Government "interference" as they become increasingly nervous about economic forces at play which they alone cannot handle.

Few countries in the world are so dogmatically committed to the principles of free trade. Along with that commitment goes an extreme reluctance to allow any Government role in the industrial process. The ardent belief among Hong Kong industrialists is that their own and their employees' interests are best served by leaving them unimpeded to respond to market forces. They traditionally pride themselves on being faster to see and exploit new opportunities than any of their international competitors.

Leo Dunning, director of Hong Kong's Trade Development Council, appropriately reflected this zealous view when he said: "This place moves so fast that the reality of our trade, its direction and the products we make, will always be ahead of any government report. Lots of meetings have been held, but back here on the farm, diversification proceeds as it always has in Hong Kong — by natural selection."

Len Dunning's view is well supported by industrial precedent in Hong Kong. In the rapidly expanding electronics sector, the growth in electronic watch exports is staggering; Hong Kong's producers have in five years come from nowhere to become the world's leading watch exporter in volume terms. Similarly, the alacrity with which Hong Kong's toymakers

embraced new technologies so that they are now world leaders in electronic toymaking is rarely seen elsewhere in the world.

And does anyone remember the boom in wig exports? In the six years to 1970 Hong Kong's wig exports rose from nothing to be worth HK\$937m a year. By 1974, the fad exhausted, exports had withered to a meagre HK\$43m. No one mourned; no one ever does to Hong Kong. They simply moved on into new enterprises, satisfying new fads and other passing fashions.

Committee

Against this backdrop, the Government committee—formally known as the Advisory Committee on Diversification—seems more and more anachronistic. Indeed the Government itself insists it has no intention of telling Hong Kong businessmen how best to diversify as and when market forces demand or encourage it. In his budget speech on February 28, Financial Secretary Philip Haddon-Cave, emphasised that the committee had been set up "within the context of our general commitment to the market-based free enterprise system."

He pinpointed increasing protectionism in the West as a major reason for creating the committee. It is true that quotas imposed mainly on textile products by the EEC and the U.S. have given Hong Kong industrialists a number of headaches. But there is no hint that Government might better be able to overcome the problems created by quotas than Hong Kong industry itself.

In fact Hong Kong's industrialists seem to be coping with their usual imaginative panache.

The value of all textile exports rose by 6.4 per cent between 1977 and 1978. While exports to the U.S. (Hong Kong's biggest market) fell by 7.3 per cent, those to the next four largest markets (UK, Australia, Singapore and the Philippines) rose by anything from 18 per cent to 51 per cent.

While the quantity of certain exports was limited by quotas, exporters compensated by "trading up"—exporting products of higher value, which carry larger profits for every item exported—and by switching into clothing not hampered by quotas—like fur, leather and PVC clothing. The volume of fur garments exported in 1978 was 80 per cent higher than 1977, while leather clothing exports rose 22 per cent by volume.

Len Dunning noted with relish: "None of these products is controlled by quotas, and where there is a loophole our exporters will find it. Adam Smith lives."

A second and perhaps more important force behind the relentless need to diversify is Hong Kong's rising wage costs. At the root of this is an acute labour shortage. Hong Kong's total workforce consists of 800,000 people, but Jimmy McGregor, Director of the Hong Kong Chamber of Commerce, claims that manufacturing industry alone is short of 100,000 workers.

Rising wage costs and the labour shortage have had three important effects on Hong Kong industry. First, industrialists have been forced to mechanise in order to maintain sufficiently high levels of production. Secondly, this has led to a need to invest more heavily in worker training. Finally, the rising wage bill has squeezed company profits and forced exporters to "trade up" into

INDUSTRIAL DIVERSIFICATION

DAVID DODWELL

products which offer bigger margins of profit.

At the same time there are severe limitations on Hong Kong's capacity for diversification. An acute shortage of land, accompanied by high population densities, rules out heavy industrial development, or the adoption of pollutive industries.

Hong Kong has traditionally been a copier of technology rather than an originator of new technologies. It has neither the cash nor the institutions necessary for original research, so must continue to rely on its imaginative exploitation of existing technologies.

Training

A third constraining factor is the limited skills of the Hong Kong workforce: standards of education are constantly improving but only a small proportion of students stay on beyond the age of 16 for higher education or technical training. Very few employers are prepared to invest heavily in training their workers.

A fourth constraint on diversification is the rising cost of speculative investment. Many new industries demand heavy investment in sophisticated technologies, while the risks of failure are as great as they ever were.

When all of these factors are taken into account, the pressing need for Government interven-

tion in the form of an advisory committee on diversification is easier to understand.

While protectionism and quotas are problems that Hong Kong industrialists are familiar with, and able to cope with unaided, the same does not apply to problems that have arisen because of labour shortages and increased mechanisation. These are problems best tackled by a central authority. While they may eventually be handled by an Industrial Development Council modelled on the Trade Development Council which already exists, Government clearly has to take the first move.

The committee on diversification was due to report last autumn, but its progress has been badly delayed. Financial Secretary Philip Haddon-Cave claimed in February that just two of the six sub-committees set up by the main committee had so far reported (these sub-committees comprise country studies, vocational education and training, land, industrial development, financial facilities and shipping).

Government officials now predict the report will be ready by autumn. Until then industrialists will continue to live by the jungle laws they know so well. Many remain sceptical about the government's ability either to change the laws, or make them any easier to live with.



The growth of Hong Kong's electronics industry has been phenomenal. Above: Workers assemble computer-printed circuit boards at the Ampere Ferrotec factory.

Building continues at frenetic pace

PROPERTY

HUGH PEYMAN

"HONG KONG will be a beautiful place, when they stop building it," wrote Han Suyin in *Love is a many splendored thing*.

Nearly 30 years later, building continues to change the face of Hong Kong at the same frenetic pace: and the prospect of the colony ever enjoying the beauty promised, when its population was just one-third of its present size, still seems to be a mirage.

A three-year boom has catapulted land and property prices into previously undreamed-of heights, while boosting corporate profits so much that the whole stock market took off last year on the back of property earnings.

Experts, whose own rents have probably nearly doubled in the past year, are wary of predicting the end of the boom — they have been wrong several times already — but market fundamentals suggest that the peak is in sight.

Within the next 12 months prices will probably dip as supply increases to meet demand. Some analysts would not be surprised if prices fell by up to 20 per cent for small flats (which comprised 93 per cent of new flats built in 1978) and 10 per cent for medium-sized properties; only very large units are likely to hold into their present value as Hong Kong continues to attract corporations to locate their regional headquarters here and because very few new units are built in the luxury sector.

Good communications, low taxation, location, developed financial and commercial facilities, still give Hong Kong an edge over such rivals as Tokyo and Singapore.

The granting of new banking licences last year boosted the top end of the housing market with rents leaping upwards between 50 and 100 per cent to take advantage of demand from executives.

Washington's recognition of Peking, combined with China's economic modernisation thrust, promises to attract even more executives to Hong Kong. But so far, very few moves have been made, most companies interested in developing their China trade are waiting to see if the present policies and leaders in Peking are as durable as their plans are ambitious.

Dividends for Hong Kong property developers will have to wait to be reaped, and even when traders successfully beat their way to China's door, it is uncertain how much of this trade will be done through Hong Kong.

Workaholic Sino-philia has not yet created any vast demand for Hong Kong property. Two records were set in the property market in the past year. Nearly HK\$1,400 per sq ft was paid for a central development site (by a group of South-East Asian overseas Chinese); in the property sector, flats in a block of luxury apartments were pre-sold for HK\$1,200 per sq ft.

Such dizzying statistics can blind the optimistic property bulls into believing that these prices will be new benchmarks to be surpassed in the near future. Soaring interest rates, which have virtually trebled in the past year with prime now at 15 per cent, combined with higher property prices, make buying a new flat an increasingly difficult proposition. Even small flats of 400-sq ft cost up to HK\$700 per sq ft, while larger areas around 750 sq ft cost over HK\$500 per sq ft. Such outlays dent considerably most young families' incomes. With mortgages at present rates, purchasers will tend to be delayed until either interest

rates or prices come down, or they are much more likely to the hard-pressed purchaser, want to buy real estate in Houston, Texas, if the U.S. Government will admit them.

The supply of new office space this year is likely to be just half of earlier forecasts, partly due to the deferment of projects in Sheung Wan which suffered from a lack of confidence generated by previous high levels of vacancy and higher yields are bringing forth new investment in office rental development.

The skyline of central Hong Kong will look considerably different in a couple of years. Some analysts wonder if the ever denser, ever upward growth of office construction will cause a dip in developers' profits, since an estimated 3.5m sq ft of office space will come on to the market in and around Central within the next 12 to 18 months.

By 1981, the value of China to Hong Kong will have become clear. If the modernisation drive boosts foreign trade and prosperity rises in the Asian Pacific region, then this crowded tip of Southern China will be increasingly attractive.

But if the managers of the economy of a quarter of mankind decide to head in a more insular direction and unsmoothed hopes are made about the New Territories lease (which expires in 1997), then that fragile, but crucial, factor in the Hong Kong equation — confidence — will be eroded and capital will flee the colony.

Yet such thoughts are put aside during the honeymoon with the new masters in Peking and the riots of 1966-67, which sent property values crashing to the floor, are relegated to the pages of ancient history.

Now soaring office blocks in Hong Kong needn't mean soaring office rentals.

Scheduled to be fully operational by the end of 1980, the 51-storey Sun Hung Kai Centre will be the tallest water-front structure in Hong Kong.

However, far more important to businessmen, already hard pressed by rapidly rising rental levels in the congested Central area, will be its proposed rental structure.

Rental levels for the Centre, which will provide de luxe office accommodation unsurpassed anywhere in Hong Kong, are currently being projected at about 75-80% those of Central.

It will thus be a natural first choice for existing businesses whose rental agreements are approaching a renewal date, and new businesses looking to set up prestige office premises in Hong Kong.

Away from the madding crowds

The Centre is situated about a mile from the Central area, and its environment will offer a welcome relief from the congested stress of Central's sidewalks and thoroughfares.

Furthermore, it is ideally placed for easy access by road and water to the whole of Hong Kong, and there will be specially constructed pedestrian walkways to feed into the pedestrian podium around the building.

Flexible offices

There are 41 floors of offices, each having over 13,000 feet of usable space. And to give maximum flexibility to tenants, the accommodation has been designed on a modular basis to allow for easy partitioning and economical use of this space. The de luxe internal decor throughout has been created by world-famous designers, Howard Hirsch and Associates. There will be maximum natural light on all 4 sides and impressive views, with high-quality reflective glazing to minimise glare and improve air-conditioning power conservation.

Finally, the entire building will be serviced by no fewer than 18 lifts — 4 of which will be the speediest ever in Hong Kong.

A great deal outside the office

Two storeys of basement will provide over 200 parking spaces. The ground, first and

second floors will contain shopping arcades. And there will be a 3-storey restaurant served by 2 special observation lifts, with a dining area in a sunhouse on top of the shopping arcade, giving a panoramic view of the harbour.

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Top-class management

Management of the Centre will be carried out by Sun Hung Kai Real Estate Agency Ltd. — the project management arm of Sun Hung Kai Properties Ltd., who specialise in Real Estate, Hotel Development and Property Finance and are one of the top five property companies in Hong Kong.

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Phased occupancy of the Centre is planned for March 1980, and a special joint letting arrangement has been set up between Tony Petty & Associates (members of the Collier Group International Property Consultants) and the Sun Hung Kai Real Estate Agency. Enquiries can be made to either of them at the addresses below.

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مكمان النحل

Textiles stay buoyant

TEXTILES

BY RHYS DAVID

AS THE tide of refugees not just from Vietnam but from China as well, continues to press on Hong Kong, the performance of this year of the colony's textile industry is assuming more than its usual significance.

For despite diversification into a range of other industries, nearly half the jobs in many factories—employment—and nearly half its exports—still come from textiles and clothing.

With Hong Kong established as the largest garment exporter in the world, the sector has played a major role in the colony's economic growth and it will be to textiles and clothing that many of the more recent immigrants will be looking for work.

For this reason, therefore, the relatively strong performance of the sector over the past year, and the reasonable prospects which most manufacturers see ahead is one source of relief for the hard-pressed Hong Kong authorities.

Last year, following a dip of 2.7 per cent in 1977, exports of garments rose by 13 per cent in value to HK\$15.7bn (£1.57bn) as a result of rising demand in the colony's three main markets: exports to Britain, now subject to tight quota controls, rose by 12 per cent to \$1.9bn

(£190m) while those to Germany were up 18.5 per cent at HK\$2.5bn and those to the U.S. increased no less than 40 per cent to HK\$6.5bn.

In the first three months of this year, garment exports rose a further 30 per cent compared with the same period in 1978, and those to Britain were up by 53 per cent.

The pattern in textiles—the production of yarns and fabric—has also been one of recovery from the poor year of 1976 when demand for textile products fell off around the world. Hong Kong's textile exports last year rose from HK\$2.7bn in 1977 to HK\$3.9bn, though this was still some way short of the record HK\$4.3bn in 1976.

During the rest of this year, demand for both textiles and clothing is expected to remain strong. Though, in textiles, there are some complaints that yarn and fabric prices are being depressed by low cost imports from other Asian countries, most manufacturers are working at or near capacity. In garments, this picture is much the same with many groups short of labour.

It is a performance achieved despite increasingly tight quota restraints on virtually all Hong Kong's most important exports, though some would say it is also partly because of these.

Restrictions on exports of basic textile products, such as cotton yarn and cloth, first introduced more than 20 years ago and tightened at intervals since, have resulted in a decline in size of the textile sector (as opposed to clothing) over recent years, and with competition from newer textile producers growing this process is continuing. The textiles sector, which now employs 68,000, has, however, moved increasingly into higher quality yarns and fabrics and thus over the past year has been able to take advantage of the fashion swing towards finer materials in women's wear.

Many textile groups have also expanded their garment activities, but with new restrictions being introduced since the mid 1970s on garment exports, too, this sector—current employment 240,000—has also moved up-market in order to maximise the value of the quota assigned to it. This has meant producing better quality shirts, fancier knitwear and more fashionable women's dresses.

As in the past, the colony has also been quick to spot areas free of quota control. It is now a growing exporter of top quality furs and leather garments, and has also moved into other clothing accessories.

Although restrictions appear even to have had a beneficial effect, by sending Hong Kong manufacturers into up-market products where the returns are higher, there remains considerable concern over the longer term implications of continued quota control, and a new appeal to the EEC to reconsider the arrangements it negotiated with Hong Kong at the time of the renewal of the GATT Multi Fibre Arrangement in December, 1977, has recently been made.

The key point now being argued by Hong Kong is that the world trading system is being distorted as a result of quota control and that the benefits which were supposed to flow to the less developed countries as a result of tight restrictions have not materialised.

While most companies are finding little difficulty in obtaining quotas through this transfer system, the cost can still be substantial on "hot" items such as fur, or where particular shortages occur, or at year ends.

Some of these groups have, however, been able to secure quotas by other means.

There are other problems with quotas which also concern manufacturers, in particular their effect on costs. The system for allocating and transferring quotas among manufacturers and issuing export licences is handled by a 400-strong team at the colony's Trade, Industry and Customs Department, and the cost of running this service is met out of licences paid for by exporters.

To obtain export licences for controlled products, companies must have quotas and these are allocated on the basis of past export performance. Companies exceeding quotas can buy them from other companies with unused quotas and a widespread trade in quotas now takes place, subject to regulations laid down by the Government.

While most companies are finding little difficulty in obtaining quotas through this transfer system, the cost can still be substantial on "hot" items such as fur, or where particular shortages occur, or at year ends.

Some of these groups have, however, been able to secure quotas by other means.

serious financial problems for buyers in the UK and other markets faced with sudden increases in price.

The EEC seems most unlikely to accept Hong Kong's suggestion of a review of its textile agreement with the colony, and there now also seems every chance of the present MFA agreement being followed by a third phase from 1981. The colony has, with its latest request to the EEC, given notice, however, that it will be pressing strongly for a relaxation of current restrictions when the next round of negotiations begins.

The industry is also becoming increasingly concerned at other internal pressures which could equally affect its ability to compete in world markets in the 1980s. Major construction projects, such as the Mass Transit Railway and the new towns programme in the New Territories, have attracted away male labour and driven up wage rates (now around HK\$1,000 to HK\$1,200 or £100-£120 per month).

Hong Kong's growth as a regional financial and tourist centre—a process likely to accelerate as China opens up further—is also creating new jobs for women in hotels, banks, offices and shops, where working conditions are more amenable than in textile mills. Though the Government has acted this year to cool down the economy, inflation is now running in double figures, again posing a threat to competitiveness.

With all land in Hong Kong extremely scarce, the cost of good industrial space has risen fourfold, according to some estimates, over the past five years. This has begun to affect the economies of spinning and weaving which because of the weight of the machinery cannot be housed in Hong Kong's multi-storey factories. Some textile groups have taken the windfall profits available from quitting prime sites and selling them to developers.

The unpredictable effects of the current world energy crisis are another cause for concern.



The Hong Kong textiles sector, which employs 68,000, has moved increasingly into higher quality yarns and fabrics. In the past year, the sector has been able to take advantage of a fashion swing towards finer materials in women's wear.

Major markets (in order of importance in 1978)	1975	1976	1977	1978
U.S.	2,147.8 (30.8%)	4,569.2 (32.0%)	5,428.5 (39.0%)	6,267.6 (39.9%)
Fed. Rep. Germany	1,897.1 (19.8%)	2,669.1 (18.7%)	2,191.3 (15.9%)	2,607.9 (16.6%)
UK	1,587.4 (16.6%)	1,794.7 (12.6%)	1,535.2 (11.0%)	1,904.4 (12.1%)
Canada	401.3 (4.3%)	764.8 (5.2%)	585.6 (4.3%)	556.1 (3.5%)
Japan	312.7 (3.3%)	415.1 (2.9%)	462.0 (3.4%)	536.6 (3.4%)
Netherlands	272.4 (2.9%)	419.2 (2.9%)	300.0 (2.2%)	425.7 (2.7%)
Sweden	348.2 (3.7%)	548.5 (3.9%)	419.1 (3.1%)	366.8 (2.3%)
Australia	308.2 (3.3%)	383.6 (2.7%)	314.9 (2.3%)	353.5 (2.2%)
Others	1,828.3 (19.5%)	2,741.8 (19.2%)	2,712.9 (19.9%)	2,690.2 (17.2%)
Total	10,201.5 (100%)	14,263.0 (100%)	13,908.5 (100%)	15,798.2 (100%)

Figures in brackets denote percentages of total domestic exports of garments. (Exchange rate: HK\$10.5 = £1)

Discriminate

The Hong Kong Commissioner for Trade, Mr. David Jordan, pointed out recently that in the two years 1977 and 1978 total imports of clothing into the UK rose by 35 per cent. Those from the EEC, however, rose by 88 per

Hong Kong itself it unlikely to suffer directly any more than its competitors in Asia, most of which are dependent on imported supplies at world market rates.

Higher oil charges are, however, likely to hasten the steps towards recession in both the U.S. and the UK, on both of which Hong Kong is heavily dependent.

The response which Hong Kong is likely to make to these various pressures is in some areas already apparent. The continued inflow of migrants will go some way to reduce labour shortages, though manufacturers have found it takes some time for newcomers to China to adopt to the pace of work in Hong Kong's factories and to achieve the same quality standards. Where recruitment has proved difficult, many textile companies have already invested heavily in labour-saving equipment and this trend seems certain to continue. Many of the more laborious jobs in textiles and clothing have already been automated.

China's own efforts at industrialisation also seem likely to provide Hong Kong with some of the spare capacity it needs in textiles and clothing. Most companies believe that Hong Kong's involvement will develop only slowly and that the profitability of cross-border ventures will have to be carefully examined.

Quality

While Hong Kong groups may be slow, however, in establishing complete projects in China, production-sharing arrangements are expected, in which both partners will share in added value. Under these, Hong Kong would send in machine-made goods which need some hand finishing. Such a development would fit in well with the colony's moves up-market into higher quality garments, using extra trim and requiring more sewing operations.

With a higher cost structure than its Far East rivals, the production of higher value higher margin goods is likely to remain the strategy most of Hong Kong's groups will want to adopt, and parallel with this there are also signs that the colony will move increasingly towards the development of its own fashion ideas.

All these developments, taken together, perhaps hint at the role Hong Kong may be playing in world textiles in the 1980s and 1990s. While the developed markets of the West will continue to be its bread-and-butter, Hong Kong may well also have a key regional role as a fashion centre within Eastern Asia, currently the fastest-growing region in the world.

As such, it might well have a smaller textile industry concentrating on higher quality goods but it would be the centre to which the region's other producers would look for ideas.



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HONG KONG XII

Phenomenal growth

ELECTRONICS DAVID DODWELL

THE VITALITY of Hong Kong's economy, and the versatility of its industrialists, are remarkable. The colony's electronics industry epitomises these qualities—and embodies at the same time the structural problems inevitable in a small country committed to free enterprise.

One has to be impressed by the way that Hong Kong's industrialists have kept up with the hectic pace of technological innovation in industrial electronics and kept ahead in the fast-ridden world of consumer electronics.

On the other hand, Hong Kong's electronics sector is fast losing its competitive edge as labour costs mount. South Korea and Taiwan possess much cheaper labour, and have begun to eat into Hong Kong's markets for cheap electronics. Hong Kong businessmen also increasingly complain that the new technologies of the electronics industry demand a more highly skilled workforce—and that Hong Kong's education system is not yet producing enough workers with appropriate skills.

The electronics industry first took root in Hong Kong as its leaders worried over the economy's over-reliance on textile exports. It flourished because labour costs were low and because Hong Kong industrialists, always fast on their feet, were willing to switch smartly into novel areas of production as soon as opportunities became apparent. Today electronics is Hong Kong's second largest industry, and businessmen boast that they can see new openings—and exploit them—sooner than anyone else.

The industry is still young, but its growth has been phenomenal. In 1959 Hong Kong boasted just two radio factories, exporting products worth HK \$100,000. Twenty years later, 800 companies produce everything from micro-circuits to home computers, exporting goods worth HK \$6.45bn.

Hong Kong's electronic watch industry vividly illustrates this growth. Electronic watches were virtually unknown before 1970 and Hong Kong's role as a watch exporter was modest. In 1978 the colony exported 20.2m watches, worth more than HK \$1bn. In volume terms Hong Kong is now the world's leading watch exporter. Switzerland, which is still the world's leading watch exporter in value terms, must sorely regret its late interest in electronic watches.

The erosion of Switzerland's supremacy as the world's watchmaker is well illustrated in the UK market. In 1971 Switzerland supplied 87 per cent of the watches sold in the UK. By 1975, two years after Hong Kong's watch exporters entered

the UK market, the Swiss share had fallen to 68 per cent and in 1978 had slumped to 30 per cent (all in value terms). By 1975 Hong Kong had won 4 per cent of the UK watch market; by last year this share had risen to 28 per cent. In volume terms Hong Kong is now the UK's leading watch supplier, with a 40 per cent market share.

Hong Kong's success was in copying a new technology and exploiting cheap labour—to launch the resulting product on a mass market. The average wholesale price of an electronic watch from Hong Kong is HK\$50—about £5. The same plays won success in the export of radios, TV games and electronic toys. Radios—ranging from the simplest transistor through car radios to radio clocks—still provide Hong Kong with more export revenue than any other electronic product—HK\$2.2bn in 1978. While dramatic growth is a thing of the past for this well established industry, exports grew by a respectable 23 per cent between 1977 and 1978.

The colony's formula for export success has its drawbacks, however. As long as its products are aimed at a mass market, then low price will be the retailer's first consideration. This inevitably means low profit margins, which inhibits heavy promotion through advertising and limits research and development. Two distinct consequences are, first, that Hong Kong products remain anonymous to most buyers, and secondly that Hong Kong producers are trapped into a parasitical reliance on research conducted by other companies in other countries. As electronics technology becomes more sophisticated, this dependence becomes more absolute.

All of these factors have conspired to prevent Hong Kong producers from breaking into the "quality" end of the electronics industry. This has only become a worry since labour costs began to rise, and cheaper producers also exploiting "copy technology" have begun to edge into certain of Hong Kong's traditional export sectors. Swiss watchmakers still maintain a firm grip on the quality end of the watch market. Though Hong Kong producers have high hopes for the latest and most expensive electronic watches, electronic analogues they face severe competition from Swiss and Japanese producers and will always rely on

the more modestly priced Liquid Crystal Diodes (LCDs) for the bulk of their export income.

The absence of any domestic research has resulted in serious problems for TV games manufacturers. They started three years behind U.S. producers who had conducted the original research, by which time the attempted export launch into the U.S. was doomed to failure. A flurry of interest over the Christmas of 1977, sales in Europe have also been disappointing.

Severe price competition meant poor quality control. In West Germany about 10 per cent of the TV games exported from Hong Kong were rejected on quality grounds, and some Hamburg importers complained that their rejection rate was between 30 and 40 per cent.

These early TV games offered a very limited range of possible uses, so boredom or breakdown put an early end to the fad. Hong Kong exporters have since paid much more attention to quality control, and the latest range of TV games is much more sophisticated and offers more subtle possibilities. But the initial disaster of Christmas 1977 has made European buyers much more wary.

Prospects

A recent report by Hong Kong Trade Development Council predicts a "strong decrease" in the sale of TV games in West Germany, where severe price competition means that "hardly any profit can be made." Similarly, prospects in France, for the latest programmable and computer games are "not very promising"—mainly because importers who had their fingers burned in 1977 are reluctant to take fresh risks.

While consumer electronics have attracted most of the headlines, and make up 70 per cent of Hong Kong's electronics exports by value, industrial electronics make an important contribution—not least because they are not subject to the erratic whims of fashion dominating the watch and TV games markets.

Typical of this sector is Ampex, a wholly owned subsidiary of the U.S. company of the same name, which produces a range of products from computer memories to mini-computers and testers. Two recent "coups" for the company have been a U.S. military contract

and a contract to supply computer memories for Hong Kong's new Cable and Wireless telephone and Telex exchange.

This company, run by Legislative Council member Allen Lee, recorded a 20 per cent growth in 1978. In this aspect it is unusual for the sector as a whole, which suffered a 0.7 per cent fall in export sales in 1978.

Allen Lee, in addition, is running Ampex, is chairman of the Hong Kong General Chamber of Commerce electronics committee, and chairman of Hong Kong's Electronics Training Board. From this vantage point he is fast becoming a leading spokesman for the country's electronics industry.

He points out that Hong Kong's electronics companies are still confined to providing the simplest inputs into the industry—in radios, calculators and consumer electronics. The multinational electronics companies which would bring to Hong Kong more sophisticated electronic technologies, have simply not been attracted to the colony. "Where, he asks, are the specialist activities like production of measuring instruments or medical electronics?"

Hong Kong is losing out to South Korea and Taiwan, Allen Lee claims—and for one major reason. The Hong Kong Government, committed to laissez faire and complete non-interference with its domestic industry, is failing to provide the industry with support and services it needs to survive.

"The days of free enterprise and laissez faire are over," Allen Lee said. "That doesn't mean government should be involved in directing industry—that would be too much involvement. But we need help in training, providing skilled labour, providing facilities for research and development. We need a body able to examine industrial strategy over a long period, to guide the industry and help it to co-ordinate its resources."

At this very moment Hong Kong's Government Commission is inquiring into industrial diversification, is preparing its final report before publication in the autumn. It is this commission which will provide the support framework that Allen Lee claims the electronics industry needs—if the industry is to get support at all.

Allen Lee is not altogether confident about the Diversification Commission's inquiry, however. Hong Kong's industrialists have traditionally thrived by promptly responding to new opportunities. The commission report is likely to be published a year behind schedule—and any Hong Kong businessmen would have lost his shirt if he had been similarly slow.

Still ahead of schedule

MASS TRANSIT RAILWAY DANIEL NELSON

LONDON'S OXFORD Street station took five years to build. Hong Kong's entire 15-station, 15.6 km underground railway will be completed in four years. Vireo in difference, says Mr. Norman Thompson, chairman of the Government-owned Mass Transit Corporation (MTR) and a champion of what he admits is the Colony's "Victorian, non-nonsense" approach to work and profit.

Either because of Hong Kong's attitudes and attitudes of the Taoist priest who presided over the inauguration of work on the HK\$ 5.8bn railway, the project is under budget and ahead of schedule. This is despite foreign exchange losses of HK\$200m last year, death threats against members of the labour force by Chinese secret societies, the inconvenience of working in the heart of the most densely populated area in the world and major design changes after construction had begun.

Even an initial disaster, which almost derailed the entire scheme, turned out to be a blessing, according to Mr. Thompson. The Japanese consortium which had signed a letter of intent to construct a 20 km railway for HK\$50m withdrew in December 1974 in the wake of the oil crisis.

Still convinced of the need for a railway—first recommended in a 1967 Freeman Fox, Wilbur Smith and Associates transport survey—and with much preliminary planning completed, the Government decided in September 1975 to go ahead with a modified system on a multi-contract basis, which Mr. Thompson believes is ideal for a project of this size. In addition, the world economic recession meant that major contractors were hungry for work.

Several have experienced difficulties, none more so than the Gammon-Kier-Lille (GKL) joint venture. GKL's HK\$400m task is to construct two and a half stations and an interlocking network of four tunnels accounting for nearly a quarter of the civil engineering expenditure but only 10 per cent of the total cost. Within six months it ran into serious difficulty when it was found that extensive and expensive groundwork treatment was required to prevent buildings in Nathan Road, the Colony's "Golden Mile," from collapsing.

GKL fell so far behind schedule that the opening of the railway in March 1980 was jeopardised. That was anathema to Mr. Thompson not merely because his own reputation was on the line, but because the Government has always stressed that the railway must be commercially viable. The target is for operations to show a profit by 1983 and all debts to be paid within a further ten years. Delay could cost HK\$1m a day in lost revenue.

Relations between GKL and Mr. Thompson became acrimonious, with both hinting that the other was selling them out. GKL submitted the project's largest contractual claim, arguing that it had not been informed of the complex ground conditions which are the root cause of the trouble.

Settlement of the claim has now been reached, reportedly for some £1m, and Mr. C. R. Livingston, the project director for GKL, admits that the settlement "excited us to catch up." This has been achieved partly by doubling the labour force and bringing in additional equipment, but also by a rapidly devised engineering design change and by working on the two main stations at both ends and at two levels simultaneously, thus halving excavation time.

GKL expects to complete the job ahead of time, a remarkable achievement considering that at the height of the crisis the Corporation thought it would have to inaugurate the railway and run trains through without stops at the GKL stations, thus enabling the company to carry on work.

The Corporation's concern has now shifted to the electrical and mechanical contracts, which are being rushed through in about half the time originally planned. The scene underground in recent weeks has been one of frenetic and apparently chaotic activity, with engineers installing sophisticated electrical equipment in clouds of dust and debris, literally in the midst of heavy construction work, standing elbow to elbow, like a battle-field," says Mr. Livingston. "People are rushing about, elbowing each other out of the way. My main job is to keep everyone cool. Once the electrical and mechanical work has been completed," says Mr. Thompson, "the chances are that in terms of design and construction the system has been proved. We should have a fair chance of running through without a great deal of trouble on the next two sections."

The first section will begin operating on October 1 (part of it on the day ahead of schedule). The second section is planned to be brought into service in January, 1980, three months ahead of schedule, and the section under the Harbour to Central the following February.

The phasing will enable the Corporation to test its ticketing and passenger-flow system; no railway has ever dealt with as many passengers on a fully automated basis and it would have been dangerous to have opened the entire system at one go.

Government go-ahead for the 10.5 km, HK\$4.1bn Tsuen Wan extension was given in 1977. All but two of the major contracts have been let, all at a fixed price and on a basis of an engineer's design, unlike the design-and-construct method used in the first phase, because of the pressing need to get the project under way.

The extension is programmed to open in 1982. In that year the Corporation's debt is expected to reach a peak of HK\$1.8bn, almost all in Hong Kong or U.S. dollars. By the mid-1980s, the 1,800 operations staff are expected to be servicing 1.8m journeys a day—about

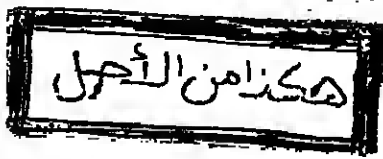
the same number as are carried on the London Underground which, with 252 miles, is 15 times as long. Initially, fares will range from HK\$1 to HK\$3, a level which the chairman says has taken into account possible wage and fuel cost increases in 1979 and 1980. "These fares should therefore not change in 1980 and hopefully during 1981."

The Corporation predicts gross revenue of HK\$679m in 1981, rising to HK\$1.2bn in 1986. Raising finance has proved far less of a problem than anticipated. There are no immediate plans for further large-scale fund-raising, but the Corporation will have to raise HK\$4bn before 1983 to meet the pre-operational interest charges and loan repayments.

Yen appreciation last year caused the Corporation to cut its losses on HK\$650m equivalent of yen-denominated export credits from Japan. Against this, however, income from property development has been considerably higher than anticipated. The Corporation is developing three prime sites in joint ventures with property companies, the largest consisting of what is virtually a small town above the main depot and maintenance sheds at Kowloon Bay.

There will be 41 blocks providing 5,000 flats for some 25,000 people, as well as shops, schools, a sports complex, clinic and many other facilities. Already 2,800 flats have been pre-sold, with the proceeds roughly split between the Corporation and its partner, Hang Lung Development and Hopewell Holding. The Corporation's own property division will manage the 487,000 square feet commercial complex.

Proceeds from the sale of flats and from the office blocks in the two other main property ventures have resulted in the addition of HK\$700m to the reserves. Other property developments are under examination. "We intend to develop every square inch we get," explains Mr. Thompson. "Having to operate commercially sharpens the mind wonderfully." And he adds with a confident smile, "things can be achieved here that cannot be achieved anywhere else."



Resettlement on a massive scale

Handwritten note: 1979/7/9/13/5/3

A BELATED seal of approval was placed on the new towns when Jardine Matheson, the major trading "hong," set up a New Territories Division. This move was a recognition of the economic implications of a policy that will increase the population of the New Territories to 2.5m by 1986. By that time, 40 per cent of the population will live in the area, compared with only 25 per cent now.

In traditional Hong Kong style, a number of Chinese entrepreneurs were far quicker off the mark and are now poised to cash in on one of the largest schemes of its kind in the world. Given the speed of development, it is not surprising that several foreign-owned companies have, only recently woken up to the potential and are scrambling for a piece of the action.

In the words of Mr. John Don, director of new territories development in the Public

Works Department, "planners in Britain draw up their proposals which are then kept in a drawer for 20 years. Here, work starts on the plans even before they are completed—planners cannot put their mistakes in a drawer."

The New Town Programme arose from the setting of a Government target in 1973 for the provision of homes for 1.8m people in 10 years.

Because of the shortage of space in the existing urban areas of Hong Kong island and Kowloon, it was decided to develop three new towns—Sha Tin, Tuen Mun and Tsuen Wan, as well as expanding the "market towns" of Tai Po, Fanling and Yuen Long.

Initially, the aim was to produce a 50-50 split between public and private housing but, in order to keep up with the government's overall target, the final public housing element will be closer to 85 per cent.

Work began in 1973 but was

hit the following year by the economic recession. This setback contributed to the dismissive attitude of those who considered the new towns scheme little more than a grandiose plan, or who failed to grasp its magnitude.

Indication of the acceleration of the programme is given by the figures for resumption of New Territories land by the Government—from 1.56m sq ft in 1975 to an anticipated 36m sq ft in 1980-81. About 50,000 people a year, mostly tenants and squatters, are pushed off the land, and become the responsibility of the housing authority.

By 1975, construction was in full swing. Because of Hong Kong's hilly, rocky terrain the creation of the new towns started with land formation, flattening hills or filling the sea. In some places, such as Castle Peak Bay, the two were combined and mountains were moved into the sea.

In Sha Tin the total fill

amounted to 30m cubic metres. The cost of developing the town, which legend says once provided the emperor's favourite rice, is HK\$5,000m and that excludes the race course and private development.

Sba Tin, where the target population figure is 870,000 from 44,000 in 1977, posed special engineering problems because it is subject to cyclonic surge. This meant that land formation had to be safely above sea level. And because it is situated in a virtually landlocked harbour, full primary and secondary sewage treatment had to be organised.

Shanghaiese textile mill owners fleeing from the Communists in China formed the initial impetus for development in Tsuen Wan, for which the population target is 900,000. Government expenditure in the next 10 years is expected to total HK\$2,890m.

Cost of development at Tuen Mun, an old fishing village which will grow from 55,000 residents to 540,000, is put at HK\$3,900m. Already investigations are being made into a 600 hectare extension to the south-east.

A complicating factor in Tuen Mun was last year's approval of the construction of a power station at Tap Sbak Kok. This involved a major rethinking of the town's potential and a re-planning of parts of the town.

A further HK\$3,000m will be spent on the market towns and rural townships, whose combined population will be taken to 500,000. Some HK\$200m has been cut from the programme in the current financial year, although that still leaves expenditure of HK\$1,300m.

There are dangers in this situation, particularly if cutbacks continue, because the setting of priorities will inevitably mean that social aspects of the New Towns and secondary features, such as landscaping, will suffer. There is a sizeable market for trees and shrubs, 8.5m of which will be required in the next five years.



Tsuen Wan, one of Hong Kong's three new towns. The target population for Tsuen Wan is 900,000.

coastal road was allocated only HK\$4.5m in the last Hong Kong Budget.

There is also concern over the cost of the electrification of the Kowloon-Canton Railway, originally estimated at HK\$400m but now likely to be considerably higher. The railway serves a potentially congested corridor into the New Territories, with the growth of Sha Tin and Tai Po-Fanling, as well as the increasing road traffic from China, now running at 150 lorries a day.

Transport within the towns is another area requiring careful analysis of priorities. Inconvenience is caused to existing residents because transport operators prefer to wait for large population build-ups before providing full services.

In Tuen Mun, which some planners see as a potential con-

tainer port with a rail link, the principle of a light rail system has been approved by the Governor. Money permitting, the system could be linked to Yuen Long.

Perhaps the hardest task is keeping a balance between the growth of the population in the New Towns and the availability of jobs. Tuen Mun suffers from a labour shortage, although the planners believe this is a temporary phenomenon while Sba Tin is under-provided with industrial land.

The scale of development in the New Towns, even if the growth of the smaller market towns is held back by the Government's financial difficulties, will shift the focus of industrial and to some extent commercial emphasis. In the last financial year some 64 hectares of industrial land were disposed of in

the New Territories, and another 60 hectares is expected to be produced this year.

Between 1974 and 1978 the supply of flat factory space in Hong Kong averaged 550,000 square metres a year, about half of it in the New Territories. The forecast for the next two years is 2.5m square metres, of which 1.6m will be in the New Territories. Provisional figures for 1980 indicate a total provision of 1.1m square metres of flat factory floor space, 820,000 square metres of it in the New Territories.

Monumental though this programme is, the planners are looking even further ahead.

"The New Town programme will be completed by 1986-87," said a senior planner. "We must think critically about how we plan Hong Kong after the year 2,000."

Decisions awaited on key issues

"IF WE don't build a new airport, Hong Kong will be strangled," according to a senior Government official. That would appear to provide a reasonable justification for the project. But despite years of discussion, a decision has yet to be announced.

Over 5.5m passengers passed through the existing airport last year and air freight rose 25 per cent to 228,000 tonnes with a value of HK\$ 1.4bn. Doubling up the single runway would increase capacity by only 20-30 per cent. A continuation of recent growth patterns would take Kai Tak to saturation by the mid-1980s. At that point, traffic—presumably tourists in the first instance—would have to be turned away.

There are possible alternatives to a straight Yes or No decision to an airport on Lantau Island—including siting the airport in Canton—but resolution of the matter depends on settlement of the question of the New Territories lease. The Government appears confident that if the lease question was settled, the airport could be built and financed without undue strain on the economy. Cost estimates vary from HK\$ 5bn to HK\$ 10bn which could be balanced by the sale of the prime land on which the existing airport is sited, and income from premiums for the removal of present restrictions on building heights in Kowloon.

A positive answer looked slightly more likely in March when the Government announced that a decision was expected "early next year" and that a layout plan was being drawn up by Parsons Overseas Company of Pasadena in conjunction with two other consulting firms and the UK Civil Aviation Authority. Agricultural land in the vicinity of the proposed site has been changing hands at three times the normal market price.

In the eyes of many in government, the airport is linked to a second major infrastructure proposal: a bridge joining Lantau to the mainland. As proposed by Engineering Consultants Group of Hong Kong the link is actually three bridges and linking roads: a hop to the small island of Ma Wan, a 1,300 metre leap to Tsing Yi (an island which has been developed for use by land intensive industries), and another hop to Tsunwan.

The consultants, who say that work could be completed by 1984 if design work starts immediately, suggested a fourth bridge to link northern Tsing Yi to the New Territories mainland.

Cost of a bridge has been put at HK\$ 1,270m, compared with HK\$ 1,260m for a submerged tube tunnel and HK\$ 1,610m for a bored tunnel, alternatives which are also being examined by the Public Works Department Road works at either end of the bridge could cost a further HK\$ 1bn. Given the other possibilities for development which we have," explained a senior Government official, "the cost of the bridge and associated roadworks could be justified

INFRASTRUCTURE

DANIEL NELSON

nly if we have an airport. Land development along the north coast of Lantau would be a bonus. But the bridge cannot justify land development without an airport, unless we have to accommodate enormous extra numbers of people.

That "unless" is a real possibility. The medium term population projection envisages an annual growth rate for 1976-1986 of 1.5 per cent (down from 1.8 per cent in 1966-76). But that was based on a low estimate of immigration—absurdly low given the history of cyclical bursts of immigration into the Colony.

Because of these imponderables, says Mr. Derek Jones, the Environment Secretary, "infrastructure planning must be more flexible. We must have a series of possibilities and take decisions only when we have to."

But certain decisions have a momentum of their own. The New Town programme, for example, will proceed although work on the development of the "market towns"—Tai Po, Fanling and Yuen Long—will be spread over a longer time-scale. This is partly a result of economic constraints but is also wrapped up with a debate within Government over the rate at which people should be decanted to new areas; one body of opinion suggests that the existing urban areas could take more people as redevelopment continues. Government commitment to New Town development also entails a continuation of the improvement and expansion of roads in the New Territories, although the road programme as a whole will slow down.

Housing

Housing, too, will expand more slowly than was planned but will continue to receive high priority, which a senior planner admitted "may entail getting a bit out of line in other things." Difficulties could lie ahead if, as is likely, the housing programme outpaces the road programme.

The Transport White Paper published in May announced Government plans to spend HK\$1.4bn at 1979 prices on roads, tunnels and railways over the next five years. Whether this programme can be maintained will depend on the health of the economy, but there is complete agreement that nothing will be allowed to stand in the way of the underground railway in order to ensure that it maximises its revenue as rapidly as possible.

Similar reasoning protects the plans for the double-tracking and electrification of the Kowloon-Canton railway (KCR). Priority for the KCR arises mainly from the link it provides with China but also because it is considered a cheaper option than the original concept of taking the Mass Transit Railway to Sha Tin. In these circumstances,

the interchange station at Kowloon Tong, a new station for the KCR, becomes crucial. Passengers travelling from the New Territories to the urban areas in the south can switch to the underground, allowing the two rail systems to become an extension of each other.

Another example of rethinking is the consideration being given to a light rail system on the north of Hong Kong Island, instead of going immediately for an underground line.

Unlike the commitments in the New Territories, the transport plans for Hong Kong Island have not yet been settled, although decisions will have to be made within a year.

Two other key infrastructure facilities—power and water—are causing fewer headaches. For the former, current developments are sufficient to take care of demand projections until the end of the century. (The Underground will be connected to both the China Light and Power and Hong Kong Electric systems, so that all essential services can be kept operating in the event of a complete loss of supply from either company; it also has emergency diesel generators.)

On water, past developments, particularly the HK\$ 1.3bn High Island reservoir, and a new water agreement with China will enable the Colony to survive until 1983 on existing supplies, unless there is a catastrophic drought. This has allowed the operationally costly desalter at Lok On Pai to be deferred.

Studies are under way to ensure supplies in the longer term, since unrestricted demand is expected to rise from 100bn gallons a year to 176bn by 1988. One possibility is to dam Tolo Harbour and convert it into a freshwater lake. If the water was required while it was still salty, reverse osmosis desalters could be used.

Large areas of Hong Kong are now "sterilised" for planning purposes as water catchments, which places even more pressure on the scarcest resource of all: land. This is a perennially controversial subject because, apart from the engineering costs and difficulties of carving building land out of Hong Kong's hilly terrain, the Government is virtually the only source of new land for industrial, commercial or residential purposes. Government revenue from land transactions in the urban area in 1978 totalled HK\$ 881m (HK\$ 628m in 1977) and revenue from land sales in the New Territories HK\$ 137m.

There is a shift in Government thinking away from housing-led development into a more positive search for new areas to open up, particularly for industrial development. The two most promising areas are Junk Bay (which could provide a satellite town for 200,000, with some 72 hectares of new industrial land) and Lantau—which is why the bridge decision is so crucial.

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HONG KONG XIV

Programme falling short of targets

HOUSING

DANIEL NELSON

DISASTERS and riots have proved effective in forcing unresponsive Hong Kong administrations to make major policy changes.

There are still 240 Mark I and II blocks, which were the first units to be constructed after the emergency post-fire accommodation.

found a standard beam which we will not go and on which we will improve in years to come," he stresses.

The Colony faced an acute problem at that time: a stock of some 170,000, mostly sub-standard, dwellings for a population which a refugee influx had increased from 600,000 in 1945 to more than 2m.

Official guesses put the number of squatters at 500,000, so even concentrating on these two groups alone there is an enormous job to be done.

Blocks

Between the Shek Kip Mei fire and 1973 there were two streams of housing: the resettlement blocks for squatters and the units built by the Housing Authority to provide homes for those in existing tenements.

housing situation, declared it offensive to "our humanity, our civic pride, our political good sense," and decided to attempt to break the back of the problem.

At the same time, the programme is under pressure from the new influx of immigrants and the trend for young couples to want their own homes instead of living with their families.

The numbers target is slipping, threatened by budgetary cutbacks. In his 1977-78 annual report, Mr. Alan Scott, the Secretary for Housing, looked forward to production of 18,000 flats in 1978-79 and 44,000 a year thereafter until 1983-83.

The Government's housing arm has been hit by the rise in construction costs and the over-bidding of the construction sector, to which it is a major contributor.

Gulf between the rulers and the ruled

LOCAL GOVERNMENT

DAVID DODWELL

THE HONG KONG Government's only report on local government quoted Confucius: "It is possible to make the masses follow what should be followed, but it is not possible to make them comprehend why it should be followed."

Just a handful of people rule Hong Kong's 5m population under a constitution set down by Britain's colonial administration more than 130 years ago.

Hong Kong's Chinese population, most of them still young and much better educated than their parents, are no longer prepared to accept dictats from on high without question.

Elsie Elliott, a member of Hong Kong's Urban Council and a dauntless campaigner for social rights, said recently: "The Hong Kong people are no longer a refugee population afraid of deportation if they speak up. The younger generation were born in Hong Kong: they are now getting higher education: they are beginning to ask why they have no rights."

Hong Kong's ruling elite hotly contends these claims. First, it claims that critics, though noisy, are small in number, echoing the views of a tightly knit intellectual minority. It then claims that the present system of government serves everyone's interests better than any other could, and that a number of checks and balances have been introduced during the past decade to ensure that rulers stay in touch with public opinion and get effective feedback on policy measures.

Hong Kong's highly centralised and unitary government certainly offers advantages in terms of efficiency and tidiness. Many administrators proudly point out that Hong Kong is saved "the cant and perjury" of politicians, by which they mean elective party politics.

Martin Rowlands, secretary for the civil service and an official member of the legislative council — Hong Kong's "parliament" — reflects this view. "People genuinely

sible for the new high figure. The tender price index for public buildings rose 21 per cent in 1978 and the situation has now gone beyond one of juggling with rising costs.

Measures to overcome this difficulty include a Housing Department attempt to attract overseas companies through the use of serial contracts.

The Home Ownership Scheme has also been hit hard by rising construction costs. The original intention was to "lure the risk out of public housing" by building good quality flats and selling them at prices below those obtaining in the private sector.

10 years. Those eligible to qualify were households earning up to HK\$3,500 a month and Housing Authority tenants whatever their income.

The first phase of the scheme — 8,300 flats to be completed by 1979-80 at between HK\$93,000 and HK\$169,000 apiece — was heavily under-subscribed.

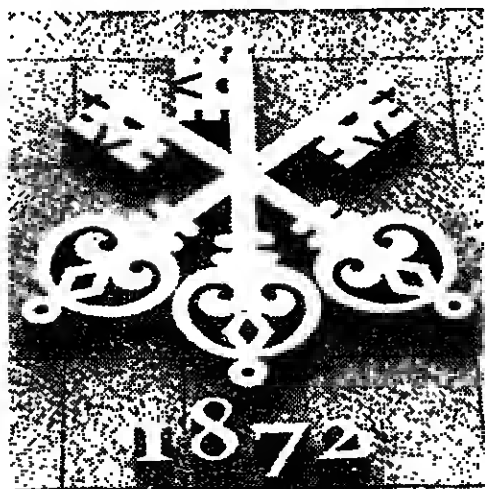
A further change was announced last May, extending eligibility to families with a monthly income of up to HK\$5,000. Because of the property boom and high interest rates it was felt that families earning less than this amount

could not afford to buy a new privately built flat.

The average price of a flat with a net area of 455 metres in the first phase was HK\$131,000. For the second phase the price has risen to HK\$160,000 and the estimate for phase three is HK\$250,000. To hold prices within the range of the target group, the average size of the flats was reduced by 10 per cent in the second phase and it is planned to top up a further 10 per cent for phase three.

Mr. Liao insists that despite the difficulties, the Housing Department is not cutting back standards. It is simply "not moving as fast as planned." On top of the other problems the rate of immigration must have an adverse effect on our programme. We had hoped to break the back of the housing problem by the mid-1980s. This may be put back two years. Even that may prove to be an optimistic assessment.

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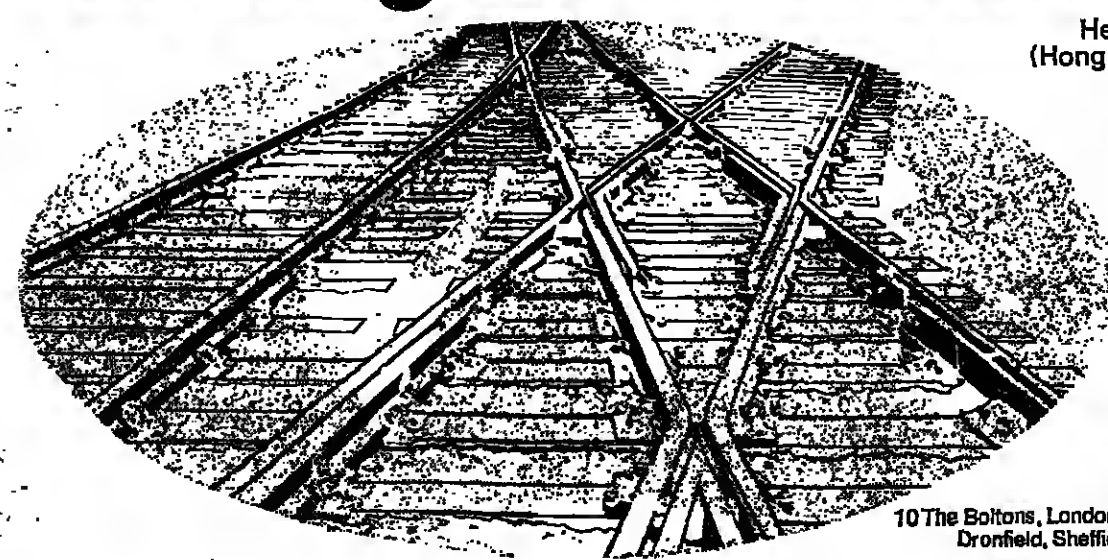
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appreciate an attempt at honest government, and appreciate the results. More than anything else they want stability and the opportunity to conduct their business with the minimum of interference. They want government to be responsible, efficient, progressive and caring. He feels that Hong Kong's governmental structure guarantees that: at the pinnacle, the governor is responsible directly to the Queen. Below him, the executive council (Exco) comprises the governor, five ex-officio members and 10 nominated members. Exco, primarily a consultative body, meets in camera normally once a week. Below Exco is the legislative council (Legco), comprising the governor, five ex-officio members, 16 appointed official members (called "officials") and 24 appointed unofficial members (called "unofficials"). Legco enacts legislation and controls public spending. It meets in public, normally twice a month.

Apology

Below this body is Hong Kong's apology for democracy: the urban council (Urbcoc). Urbcoc has 12 appointed members and 12 elected members. It has power over sanitation and hygiene. Voters must have lived in Hong Kong for at least three years, be over 21, be regular tax-payers, rate-payers, holders of school certificates. Teachers, civil servants and some professionals also qualify. A grand total of 6 per cent of Hong Kong's population is qualified to vote.

The conservative camp on Urbcoc (the majority) feels that a more substantial concession to democracy would court folly. One typical view comes from John MacKenzie, a member of Urbcoc: "We should rationalise and regularise the Urban Council by ensuring that the best qualified and most widely accepted citizens are selected, and invited to serve on the council. Some elective presence should remain but on a diminished scale."

A working party set up in 1966 by the then Governor Sir David Trench to investigate local government reforms claimed in its report: "There is definite risk that a system based on popular representation as determined by the ballot box could quickly become controlled by unscrupulous or corrupt power-seekers." In this context, social activism is "trouble making."

Elsie Elliott, also an Urban Councillor (elected), does not agree: "The only principle that exists in Hong Kong Government is freedom for the ruling class to make money without having to consider the rights of any but their own class. The electorate for the Urban Council is made up of privileged people — and only privileged people. I have a case load of about 500 people, and there isn't a voter among them."

It would be unfair to say that Hong Kong's rulers have made no reforms. The New Territories administration has set up a wide network of local committees to act as conduits between government and the local community. The Home Affairs Department followed with City District Offices (CDOs) after the shocking riots in 1967, which split over from upheavals inside China.

These CDOs aim to be "windows" to Hong Kong's urban population, channelling government decisions through to them, providing them with access to Government departments and

services, and feeding back to the Government opinions on the grass roots. This network claims numerous successes, although it has often roused resentment inside other Government departments when it has fed back to them public criticism of their actions or policies.

Its role in smoothing ruffled feathers, and helping people to get appropriate compensation during the immense social disruption as the Mass Transit Railway was built, produced favourable comment from all quarters. Other checks and balances exist: the Director of Audit weeds through the government accounts every year in search of negligence or misconduct and has in the past come up with substantial criticisms requiring Government action. His recommendations are considered in detail in the Public Accounts Committee, which meets in camera. The Director's instructions are dealt with "principles, systems and procedures rather than with details and personalities" — a situation hardly conducive to full disclosure.

Hong Kong also has "government by phone-in." Every department has a senior officer on call every morning to deal with complaints or criticisms voiced by callers to Radio Television Hong Kong (RTHK). Presenter Steve Aylward justifiably claims numerous successes as officials have acted on these criticisms, but some people claim he has become something of an apologist for the government.

Elsie Elliott is not impressed by these concessions however: her closely documented evidence of government injustice, bullying, complacency, incompetence or corruption is massive, and stretches back many years. The now notorious police corruption trials which resulted in the dismissal and conviction of police chief Peter Gndber were forced to the fore by Elsie Elliott. Government officials have learned to take careful note when Elsie Elliott points the accusing finger. While her incorrigibility is legendary in Hong Kong it is also rare: most people are intimidated into political inertia by a bullying government, according to Elsie Elliott. "I reckon it takes from three to six months for a newcomer to Hong Kong to become either one of us or one of THEM,"

she said in a recent pamphlet. "US means the colonials, the social climbers, the omniscient and omnipotent ones. THEM means the rest, numbering about 4m people, the ordinary folk."

It is this polarisation that she most fears. She reports a strengthening "undercurrent" of militancy and unrest among "the ordinary folk," which augurs ill for Hong Kong's political future.

The impregnability of Hong Kong's rulers "angers her greatly." "A member of the administration can do any damn thing. He can be corrupt, lazy, ignorant or incompetent and will barely ever lose his job."

At the root of this criticism is an attack on the continued heavy use of expatriate labour, particularly at the highest levels of Government administration. While expatriates make up only 3 per cent of Hong Kong's 127,000-strong civil service, at the directorate level (where salaries are in excess of HK\$11,000 a month) expatriates make up 64 per cent of the workforce. Among top management, the next rung, expatriates make up 40 per cent.

Grievances are compounded because expatriates "get" very important perks: assistance with housing (which is crippling expensive in Hong Kong) and paid home leave every year, with extra holiday to facilitate this.

Grounds

The Government defends its policy on two main grounds: first, government is still colonial, and neither the British nor the Chinese governments would be happy to see too much power devolve to the indigenous Hong Kong population. Second, Hong Kong lacks many specialists needed in a sophisticated administration, so these have to be imported. Critics accept these points in part, but claim these requirements do not justify such a large expatriate labour force — or the perks given to them.

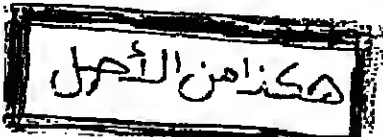
Again, Elsie Elliott is blunt: "The withering of Britain's colonial service means fewer and fewer expatriates have experience or expertise to match local people. The fact is that many who come are ambitious men who are not good enough to fulfil their ambitions in Britain. Basically, they are throwouts. But when they arrive here they are almost guaranteed safe passage to the top. The Chinese, who know all the answers, are usually passed over."

Elsie Elliott's comments may seem harsh, but they reflect a substantial body of opinion among Hong Kong's Chinese population — a body of opinion that would have to be listened to much more attentively in an elective democracy.

This Survey will have whetted your appetite for more information about Hong Kong. We can give it to you.

HONG KONG GOVERNMENT OFFICE

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HONG KONG XV

Demand for world action on refugees

HONG KONG has been hit by a human monsoon; as no end seems in sight to the flood of pathetic Vietnamese refugees pouring across the South China Sea towards Hong Kong, so the Government has warned the world that it is near the end of its tether.

Hong Kong Governor, Sir Murray MacLehose's alarm call was made for maximum impact in Britain and the United States, during his recent tour of western capitals. Coinciding with Malaysian threats to shoot Vietnamese refugees as they tried to come ashore, Sir Murray's warnings struck powerfully home.

The call by Mrs. Margaret Thatcher, Britain's new Conservative Prime Minister, for an emergency UN conference on refugees, was probably a direct result of Sir Murray's visit. So too, was Foreign Minister Lord Carrington's whistle-stop visit to Hong Kong, for a first-hand look at the refugee problem.

Victory in the battle to attract world attention to the refugee crisis is, however, only a first stage in the war being waged to resolve the problem. Hong Kong is now isolated as the only remaining refuge for escapees from Vietnam as they drift with the south-west monsoons. Unless the sympathetic sentiments voiced by Western leaders are backed promptly by concrete action, then the colony faces a dilemma of dreadful proportions.

Between January and the end of June, over 53,000 Vietnamese refugees arrived in Hong Kong. They continue to arrive at a rate of more than 1,000 a day and local analysts predict 200,000 will have arrived in Hong Kong waters by the end of the year.

At the same time, immigrants both legal and illegal are pouring in from China. An estimated total of 150,000 arrived up to the middle of June, and while the flow has been stanchied in recent weeks, Government experts still predict an influx for the year of more than 280,000.

Crowded

Hong Kong is already one of the world's most crowded corners: one area of Kowloon boasts a population of 144,000 people per square kilometre. Around 5m people squeeze into a land area of 404 square miles, and the prospect of absorbing another 400,000 as a result of one year's uncontrolled migrant influx is a daunting one.

The Hong Kong people themselves make a clear distinction between the Chinese and Vietnamese arrivals—and it is the Vietnamese who arouse the most venomous feelings. Chinese immigrants may be marginally more numerous, but most of them are single men, aged between 18 and 35. Enthusiastically and culturally they merge easily—and are eager to do so. Many have relatives already in Hong Kong, albeit distant relatives. They bring few dependants, and while they arrive with no particular work skills, they can easily be absorbed by Hong Kong's labour-hungry industry.

In contrast, the Vietnamese arrivals are mostly aged dependants. They have no interest in settling in Hong Kong, and plan to stay only as long as is necessary to get entry visas to the United States or other countries of apparent golden opportunity. Few speak Cantonese, and when offered the opportunity of language tuition, opt to learn English. Many are peasants, and have adapted poorly to jobs offered in local industry.

The refugee camps which now hold the Vietnamese are bursting at the seams, and the cost of keeping them is easy to count—they are a clearly visible social problem. Immigrants from China may eventually cost the Hong Kong Government much more, but these costs are, and will continue to be, minimal. In consequence, the issue of Chinese immigrants is much less emotive.

As refugees, the Vietnamese present a number of anomalies. Early arrivals were all ethnic Chinese, but the recent influx has included an increasing number of ethnic Vietnamese. Those from the south (an increasing proportion) are often wealthy. It is now acknowledged that they pay dearly for safe passage out of Vietnam—up to \$2,500. Even before other SE Asian countries began to turn them away, many aimed for Hong Kong simply because the authorities made no attempt to confiscate the gold leaf which they carried with them, the last remnants of their wealth.

Most face persecution in Vietnam because they are racially Chinese, because they made up Vietnam's pre-revolutionary *petit bourgeoisie*, or because they worked for the U.S. Army, while it was fighting in Vietnam. Increasing numbers of refugees repeat the same story: their property confiscated, then work permits and food ration cards are withdrawn. They are then given a choice between buying their way out



Urgent new moves are being made to halt the flood of illegal immigrants crossing Hong Kong's 15-mile land border with China. After their arrest, immigrants (above) receive a bread ration from a Gurkha soldier.

IMMIGRATION DAVID DODWELL

of the country or being sent to one of Vietnam's "New Economic Zones." Whenever cash can be scraped together, the choice is a simple one. The refugee influx reached epidemic proportions in April when East Asia's monsoon winds began to turn: throughout the summer, the south-west monsoon will push Vietnamese refugees relentlessly on to Hong Kong's western shores—so long as they don't sink and drown before they reach there. The Hong Kong authorities claim that one refugee drowns for every one that leaves Vietnam.

This fact, if no other, should galvanise Western Governments into action. The UN conference called for July 20 in Geneva may seem to have been swiftly arranged, but many thousands of lives will be lost even in this short time.

Slow action by the Western powers has led the nations of South-East Asia to the verge of despair. In theory, Vietnamese refugees should be no more than a passing problem: Western Governments, particularly the U.S. and France, acknowledge that Hong Kong, like Malaysia and Indonesia, is simply a processing centre, and that the Vietnamese will move on, in due course, to permanent homes.

The problem is that they are being processed at a small pace. For every 100 refugees processed more than 1,000 arrive to await processing. The U.S. has recently doubled the rate at which it is prepared to accept refugees to 14,000 a month, but even this is inadequate to deal with the influx.

In the meanwhile, the price of housing and feeding the refugees mounts alarmingly. They cost the Hong Kong Government an estimated HK\$110,000 a day. Pocket money was cut in April from HK\$ 8 a day to between HK\$ 4 and HK\$ 6, depending on family size.

The UN High Commission for Refugees (UNHCR), which shares costs with the Hong Kong Government, claims its coffers are almost empty. Refugees awaiting resettlement are encouraged to find part-time jobs, but they have proven to be "idle" and "unreliable" workers.

The Government is also running out of places to put refugees. The two initial processing centres, at the Government dockyard, and near Kai Tak airport, hold 16,000. Prisons house a further 2,500. A warehouse has been converted to take 11,000. The Government has leased other properties to the UNHCR: the main camp at Sham Shui Po holds 8,800 after extensions completed at the end of May. Nearby, the Jubilee buildings house a further 2,000.

Squeeze

A further 2,700 were housed abroad, the Panamanian freighter, *Skylock*, which arrived in Hong Kong waters on February 8. But just over a week ago, crew members managed to cut the anchor chain and the *Skylock* ran aground on one of Hong Kong's offshore islands. The refugees on board have since had to be squeezed into prison accommodation on Lantau island. As more refugees arrive, the government is drawing up contingency plans to clear warehouses, multi-storey car parks, hotels and even ferry boats.

As a matter of principle, the colony's Government is reluctant to make life too comfortable for refugees: that would encourage Western governments to drag their feet even more. The uptake of refugees by Western nations has disappointed Hong Kong, and driven the ASEAN leaders to take a much harsher stance.

When Margaret Thatcher

China's interest that Hong Kong should remain prosperous, and that continued large scale immigration is likely to weaken severely the economy—by putting fresh strains on public services, welfare services, hospitals and schools, and by exacerbating Hong Kong's acute housing shortage.

Chinese action since Sir Murray's visit seems to have matched that in Hong Kong for effectiveness: border patrols have been strengthened as troops from the 42nd Army have returned from Vietnam. A propaganda campaign seems to have been mounted criticising aspiring emigrants, and tougher punishments seem to await escapees returned to the mainland.

The Hong Kong authorities urgently needed a respite on the border with China: they can now concentrate on tackling the Vietnamese refugee crisis. The Geneva conference on July 20 cannot come soon enough.

Attractions

While the Vietnamese refugee problem still remains unresolved, the crisis over immigrants from China may have passed: concerned action by authorities on both sides of the border seems to have brought the problem under control for the time being, at least.

It is not difficult to see the attraction of Hong Kong for many young mainlanders: living close to the border, the sky to the south glows every night from the lights of Hong Kong. This British enclave offers not only bright lights, but the tantalising prospect of wealth and escape from the gruelling and schizophrenic life under Communist rule.

The greatest problem comes from illegal immigrants (called "I-Is" or "eye-eyes" in local jargon). These flooded in when China's war with Vietnam broke out, because border patrols were thinned drastically. Hong Kong patrols have been at full stretch since last autumn, however. In the first six months of 1979, about 150,000 Chinese crossed into Hong Kong—most of them "I-Is." About 45,000 have been sent back.

It only becomes possible to log accurately the rate of illegal arrivals when "I-Is" "touch base": if they reach the Hong Kong urban area, then after three months they can safely apply to the Registrar of Persons for an identity card and a right to permanent residence.

The alternative, Hong Kong officials insist, is an "underground" population with no right to legal work or residence—a recipe certain to produce drug trafficking, black marketeering, petty crime, prostitution and other illegal means of earning a living.

During the past month aspiring immigrants have been much less successful in slipping through the net flung along the border between Hong Kong and the mainland. An extra 1,000 troops from Britain, with extra helicopters, a hovercraft and a fast patrol boat, have no doubt helped to reinforce border patrols on the Hong Kong side.

New laws enabling police to detain "I-Is" for court appearances (until recently they were returned to China within 24 hours) has helped in the campaign to catch "A-As"—aiders and abettors. So too have new laws permitting police to board any vessel suspected of carrying "I-Is," and to seize vessels of any size found carrying them. But these can only be stop-gap solutions. A long-term solution can only be achieved if the Chinese authorities take pre-emptive action on the other side of the border.

Illegal immigration was high on the agenda when Sir Murray MacLehose made his historic visit to Peking in April. Sir Murray returned convinced that the Chinese authorities were aware of the scale of the problem, and appreciated the advantages to both sides if the flow could be stanchied.

Handwritten note in a box: 1979/7/9

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HONG KONG XVI

No end to the Kung Fu craze

THE FLYING fists of Kung Fu Maestro Bruce Lee had cash registers ringing round the world for the Hong Kong film industry. The martial arts master launched an international craze for Kung Fu and at the same time put Hong Kong firmly on the film map of the world.

Nobody has come along with the same charisma to capture the imagination of audiences. But the local industry certainly has no complaints about box office receipts, with the two big production companies in the Colony — Shaw Brothers and Golden Harvest — producing a steady stream of films for this year.

Golden Harvest, for which Bruce Lee was such a goldmine, has about 14 films on the production line for this year, including a US\$17m thriller *High Road to China* to be directed by John Houston. A company spokesman said: "We've averaged about 12 films a year since we were founded in 1970. This year is going to be one hell of a year. The films will be predominantly action comedies. Kung Fu is becoming a little frayed at the edges nowadays. There is never going to be another Bruce Lee."

The company has also just had a very pleasant financial surprise in Japan, which ranks after the U.S. as one of the world's most lucrative film markets. They released a Hong Kong comedy *Private Eye* with two talented local Cantonese brothers, Michael and Sam Hui, as the stars. Everyone thought the humour was too parochial — it would never travel, they said. Golden Harvest hired a top team of Japanese comedy writers to do the subtitles, business boomed at the box office and a Hui follow-up is now underway for Tokyo.

Shaw Brothers, the cinema giant of Asia, is also full of optimism about 1979. It has plans to complete about 40 films this year, which will boost production by about 10 per cent.

The company has a chain of about 160 cinemas around Asia. A spokesman said: "The overseas Chinese will always be our big market. We primarily cater for them and are having a pretty good year. We also do film financing, which we believe is better than international co-

THE FILM INDUSTRY SIMON LLOYD

productions. Controlling production lines out of Hong Kong is rather difficult." Hong Kong, famed backdrop for *The World of Suzie Wong* and *Loce* is *A Wong Splendid Thing*, is still proving to be a popular location site for overseas film companies, with more than 30 films being made in a year.

Coming Home, which won Oscars for Jon Voight and Jane Fonda, came to Hong Kong for Fonda and her screen husband Bruce Dern to enjoy some celluloid rest and recreation away from the Vietnam war. Elaborate stunts were staged for the bumbling Inspector Clouseau as Peter Sellers gallivanted his way through the latest Pink Panther saga in the back alleys of Hong Kong.

Ryan O'Neal, star of the hugely successful weepie *Love Story*, came with Candice Bergen to Hong Kong for the follow-up — *Oliver's Story* — which took the crew to the picturesque fishing port of Aberdeen, famed for its garish floating restaurants.

Advantages

The film crews don't just come here for the exotic backdrop. Labour costs are low, local technicians are easy to hire and getting more proficient every day.

The Government also happily smooths the path for the new arrivals — no permits are needed for visiting production units. All they have to worry about is trying to film in some of the most overcrowded streets in the world.

Hong Kong is full of avid movie fans, cinemas are packed out every night. But a glance at the box office blockbusters show how narrow their tastes can be at times. A look at the top 20 money spinners show the Hui Brothers' special Cantonese brand of slapstick

comedy to be the big winner. They take three of the top four places with their films. The top foreign entry down at No. 5 is that daddy of the disaster epics — *Powering Inferno*.

Avid fans of quality films from the West have slim pickings to choose from. Local critic Mel Tobias, who recently wrote a book reviewing the post-Bruce Lee film industry, complains: "If a film doesn't pick up at least one Oscar or make money elsewhere in the region, it won't be shown in Hong Kong." Come Oscar time eager cinephiles rush along to catch the main winners before they vanish from the screens after an all-too-short appearance.

The "skin flick" is another notable and widespread phenomenon on the screens of Hong Kong, but Tobias complains: "The irritating thing about reviewing films in Hong Kong, particularly sex films, is that by the time they reach our screens there is really very little flesh left after the censors have been through them, scissors waving, killing even the continuity."

Tobias's book is illustrated with some fairly steamy scenes from local productions, but Hong Kong Film Censor Nigel Watt points out in his introduction to the glossy book: "Some of these photographs are the imaginative products of studio still photographers and do not necessarily depict scenes as they appeared on the cinema screens of Hong Kong."

Bruce Lee, who died six years ago, still casts a giant shadow over the industry which once poured out a flow of look-alike movies with titles like *Eye*, *Loce*, *We Miss You*. Those days are gone and Mel Tobias reflects optimistically about the industry, concluding: "Somebody may just come along to put Hong Kong back into the international limelight."



A director of Shaw Brothers—who last year produced 70 films—directs a *Ching Dynasty* period film at the famous "movie city" in Clear Water Bay, Hong Kong.

casinos are their main beat, but they will also add budding sites to catch workmen playing Pai Koi, the Chinese equivalent of dominoes, for money. Illegal bookmakers are another popular target, although catching them in the meantime stand on the race course is often a thankless task. Bets are passed by word of mouth and debts are cleared afterwards outside the track.

But the Hong Kong Chinese are not just confined to the race course in their eager search for the fast buck. Just 40 miles across the Pearl River are the bustling casinos of lights and music, the delightful old Portuguese territory that has been oriental gambler's dream. The casino syndicate makes an estimated US\$300m a year out of the Chinese passion for gambling: a large slice of the money goes towards the Macao Administration's revenue.

Variety

Macao, the oldest European settlement in Asia, is a particularly fascinating place to gamble in because of the variety of offers. There is the delightful seedy floating casino house on the waterfront where the imaginative tourist can easily visualize himself being strangled in a misty night. Then there is the huge and extraordinary *Hotel*: a 21st century casino whose gambling tables are more like a stage set for a play like *Close Encounters of the Third Kind* than a casino.

The Westerner coming to Macao should also throw away all preconceived ideas of what a casino looks like. Forget the elegance and sophistication of Monte Carlo, with its impeccably dressed James Bond types and their little escorts. Don't think you will be transported to the brass vulgarity of Las Vegas with all its neon lights, slot machines and one-arm bandits. Macao the ultra-serious business is gambling and you'll be seeing shoulders with a white shirt, old fisherman or an old Chinese servant determined to win that elusive fortune and escape the headlines.

But all too often the "big sharks" who do such a lucrative trade — offering outrageously high interest rates in exchange for the unfortunate gambler's travel documents — do a roaring business with the desperate.

Even so, the sharks do nothing to deter the ever hopeful Hong Kong gambler. Every week the hydrofoils are packed with eager punters. Gambling is a part of the expatriate Chinese way of life, and whether it's the casino or the racecourse, they genuinely revel in every minute of it and happily gamble away fortunes that most could ill afford to risk, let alone lose.

Bewildering statistics

GAMBLING

BY A CORRESPONDENT

THE HONG KONG Chinese would happily bet on a race between two raindrops trickling down a window pane. If you think this is an exaggeration, take a trip to the racecourses of Happy Valley or Shatin and watch the fanatical Chinese punters in action. They put a mammoth HK\$10m on every single race. A look at the Jockey Club turnover statistics for this year shows that per capita every man, woman and child in Hong Kong wagers HK\$950 on the horses, one of the highest gambling rates in the world.

The English may have a fondness for individual horses which develops into a passion when it's Red Rum or Arkie. But in Hong Kong the crowd is out there rooting for Number Three. The courses particularly the newly opened Shatin on a spit of reclaimed land, may offer some of the most up-to-date racing facilities in the world. But when it comes to horses, the average Hong Kong racer would not be out of place in a selling plate at Catterick. That is of little importance to the Hong Kong punter, eager to win the quinella or other exotic bets

that offer him the kind of stupendous odds the tierce punter gets in France.

Hong Kong had 65 race meetings this season and every one was packed out. The gamblers took Shatin — an engineering miracle built on 16m tonnes of reclaimed land — to their hearts, though some of the longer-priced winners may have hurt their pockets.

The Jockey Club, which gives the bulk of its profits to charity, does not stop there when it comes to pandering to the Chinese passion for gambling. It also arranges the Mark Six lottery, Hong Kong's answer to Bingo, for 4.7m people. As the name suggests, you have to pick six out of 36 numbers in the twice-weekly draw. The Chinese, eagerly bunting for the big bonanza, happily invest more than HK\$2m a year on this

game, which depends on pure chance and nothing else.

Sunday horse racing was introduced for the first time this season and it certainly proved popular in a tiny territory where leisure pastimes are often hard enough to find for today's increasingly affluent young Chinese, who have come a long way from the misery of their refugee parents who just struggled to survive. About 40 per cent of the wagers were made on course, with the Club's wide circle of off-course betting shops providing the rest of the revenue.

That is as far as legal gambling extends in Hong Kong. Anything else is outside the law — bar the odd friendly game of Mahjong, where no commission is taken.

Last year Hong Kong police made almost 12,000 raids on

illegal gambling dens, resulting in 13,429 arrests. Despite the impressive statistics, a police spokesman did say: "It is the opinion of the police that, when compared with the many other problems the general public faces in Hong Kong, illegal gambling cannot be considered serious."

There are special anti-gambling squads in every police division. Their main problems are small-time illegal casinos, usually operating out of private flats in high-rise buildings. They are very difficult to track down. They rarely operate out of each flat for more than two days and are constantly on the move. Regular clients are contacted by their pager buzzers and can easily be assembled; operations are hard to track and crack.

Moreover, the courts tend not to slap on the maximum fine once an offender is caught. You can get two years' imprisonment and a HK\$500,000 fine for operating an illegal casino. On average most offenders escape with a fine of HK\$5,000-10,000. Gamblers are much luckier, escaping with pinprick fines of HK\$150-200.

Police anti-gambling activities do not stop there. Illegal

How the biggest unknown bank in Holland can make you better known in Hong Kong.

It has come to our notice that we are largely unnoticed. Despite a century of successful merchant and commercial banking. For well-known corporate, institutional and private clients.

Not only are we obscure in our home country, Holland. But with offices in major international financial centers, Pierson is now unknown far and wide.

For example, in Hong Kong. You are probably unaware that this Pierson branch can provide you with wholesale services like syndicated loans, deposits, foreign exchange and arbitrage, Euro and Asian dollar bond placements.

What's more, together with our Amsterdam and Curaçao offices, Hong Kong forms a round-the-clock financial triangle.

Besides the Hong Kong branch, Pierson has a history of experience and contacts in the Far East. Through affiliations in Jakarta and Tokyo. Through two decades of merchant banking activities for Japanese corporations. Through involvement in Tokyo Pacific Holdings, an investment company dealing in Pacific Basin securities. We have the expertise to advise and assist you in mergers and acquisitions, in structuring and setting up a company, in raising equity.

But just as important as any service is Pierson servicing. Because we're still comparatively small, we can be highly personal. Keeping a strong bond with each client, a close involvement with your business. This means we're more apt to come up with innovative ideas for your financial growth.

If you want to become bigger and better known in the Far East, let Pierson help you orient yourself. For further information contact Mr. Tom van Manen of our Marketing Department, 214 Herengracht, Amsterdam, The Netherlands. Or contact Mr. A. A. Best, Rooms 1517-21, Swire House, Connaught Road, Hong Kong.

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The Netherlands: Amsterdam (Head Office), The Hague, Rotterdam and Haarlem. Foreign branches and subsidiaries, representative offices, trust offices and affiliates in: Bermuda, Curaçao (N.A.), Guernsey (Channel Islands), Hong Kong, Jakarta, London, Luxembourg, New York, San Francisco, Zurich and Tokyo.



هكذا من العمل

A big future for 'talking computers'

BY MAX WILKINSON

شكرًا على الجهد

"Hello, this is the computer speaking. What do you wish to order?"

"RO OD PT N 15674331"

"Sorry, that part has been replaced by N 15674339"

"RO OD PT N 15674339"

"Thank you, the order will be despatched at once"

MAYBE this doesn't sound all that wonderful. Certainly it is not in the class of telephone conversation which Betsy keeps enticing us to have with our loved ones. But talking computers are not programmed to be intimate. Endlessly polite, they are, invariably patient. But as conversationalists, definitely limited. Perhaps it is a wonder that they can talk at all.

In fact, talking isn't the difficult part. The problem is that computers can talk indefinitely, but are poor listeners.

To make yourself understood by a computer you have to treat it like an imbecile, speak slowly, very clearly and with a few simple words. A suitably programmed machine could understand "ONE, BROWN, COW" but the possible identity of a "silly old cow" would almost certainly have it stumped. Moreover, computers will not respond to a question from a voice which they have not been programmed to recognise.

For these reasons the talking computers which are beginning to appear in the commercial market do not usually accept spoken commands from their users. A system sold in the UK by Menzies Communications Systems—a subsidiary of the British Chain of Newsagents—for example, uses a small calculator-style keypad which is coupled to the microphone of an ordinary telephone.

In the example at the beginning of this article, the user would dial straight into the computer and press buttons on his keypad to transmit his identification code and his

request. But the computer responds with an ordinary human-sounding voice.

The great advantage of a talking computer is that it is much more accessible than conventional systems. These usually communicate with human operators by displaying information on a bulky and expensive television screen. To communicate with a talking computer, all that is needed is the special keypad costing £100, or less and access to a telephone. The computer itself, of course, must have special voice production electronics.

Salesmen

The Menzies system has been installed by several major car companies to enable servicemen throughout the country to dial straight into the central computer to order spare parts. It is also used by travelling salesmen who want to make up to the minute checks on the availability of stocks, while visiting their customers. It could also be used for the validation of credit cards which could dial straight into the computer instead of having to go through an operator.

The Menzies system cannot, in discursive terms, be considered a great talker, although its vocabulary of up to 400 words is adequate for its main function: as an electronic filing clerk. It uses a spinning disc on which words and phrases have been pre-recorded by a live human. The computer assembles these words into the order required to make its sentences, and the result sounds surprisingly natural.

This system is a comparatively simple example of the way in which computers are increasingly being programmed to imitate and even to replace human facilities for good commercial reasons.

It is happening because computer manufacturers are

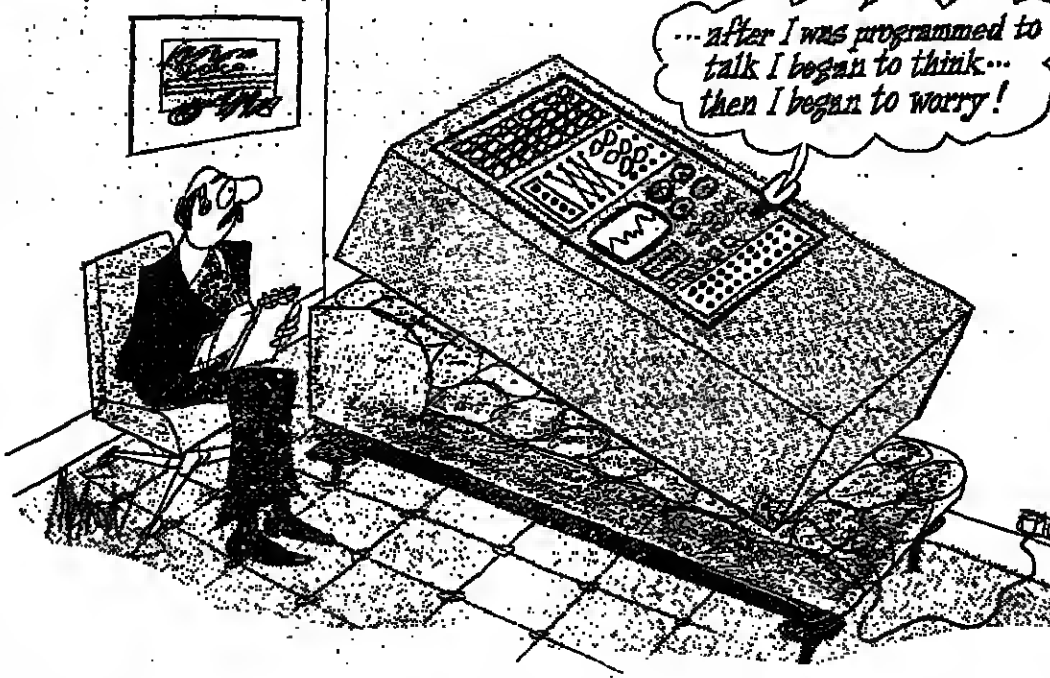
coming under increasing pressure to find new markets as the cost of their products falls. The revolution in microelectronics has caused the price of computers to drop by about 35 per cent a year (for all levels of performance). That means the manufacturers will need to find a completely new category of customers if they are to prevent their revenues from shrinking.

To do this, they are trying to "democratise" computers, to liberate them from the jargon of the technological elite and, in short, to force them to speak our language. Systems designed for small businesses must be comprehensible to the small businessman and to some extent to the ordinary secretary.

At the same time, even the bigger systems are required to be what the industry intelligently describes as "user-friendly". That means they must communicate in natural language with a growing circle of secretaries, production workers and executives who now have access to the networks of computer terminals.

Once computers can use natural language it is a comparatively small conceptual step to make them talk, although the technical feat is impressive. Texas Instruments has even produced a miniature talking computer for nursery school children. It costs £47, has a vocabulary of 200 words and is intended to teach spelling. The machine produces a completely synthetic imitation of the human voice which will certainly be developed for use with more complicated systems.

Professor Donald Michie, Professor of Machine Intelligence at Edinburgh University, believes that talking computer systems will be in general use in the next two or three years. He believes the systems will be used for airline reservations, stockbroking, perhaps air traffic control and other applications where very busy people need to obtain instantaneous informa-



tion from a computer.

However, with computers, as with people, the mere ability to speak must be distinguished from what Professor Michie describes as "user-friendly" quality of the discourse. Voice production does not necessarily imply artificial intelligence, although it will undoubtedly focus a great deal more attention on fascinating developments in this field.

Research into artificial intelligence does, in fact, show every sign of breaking out from the mists of speculation of the last decade to become a thing of real practical importance.

In the U.S. research is being conducted in at least 12 different institutions; and some of the larger electronics companies are beginning to take a lively interest in the results. Several of these companies, including Texas Instruments, have for example, recently been on an active recruitment drive

among the 200 artificial intelligence researchers at Stanford University in California.

One motive, undoubtedly, is the desire to make computers better at recognising speech patterns and at understanding their meaning. Computers already exist which can respond to a few spoken words in a restricted context involving very few questions and answers. Their development could clearly have important military and commercial applications.

However, there is no need to be alarmed that a complete electronic Frankenstein's monster is just about to be wired together. Professor Christopher Longuet-Higgins of Sussex University points out that in addition to the practical difficulties of distinguishing different accents and similar sounding words, a number of conceptual problems are very far from solution.

What for example, is a com-

puter to make of the "it" in the sentence: "It is raining" or "It is advisable..."? Or suppose a computer is told that if "all men are mortal" and "Socrates is a man," it must follow that "Socrates is mortal." The professor says that if the machine was then told: "Men are numerous," it would probably deduce "Socrates is numerous."

Indeed most of the experiments in making computers converse in natural language have demonstrated the severe limitations of what is possible. Some computer programs have been able to give life-like responses to general questions but at the expense of appearing mentally disturbed or in some other way extremely limited.

One early example was a program called ELIZA developed by Professor Joseph Weizenbaum of the Massachusetts Institute of Technology in which the computer simulated a psycho-

analyst interviewing a patient.

The computer program was so good at "analysing" its patients that some people even requested private sessions with it and some experts said that every hospital should have one. However, Weizenbaum points out that the analysis was essentially fraudulent because the computer had no understanding of its "patients" nor of language. It was simply going through a series of clever routines. Another attempt by K. M. Kolby produced a clever program called PARRY which simulated the responses of a paranoiac to questioning. However this seemed to be successful mainly because the computer could simply revert to a supposed obsession whenever it could not "understand" a question.

In general, therefore, research has shown that the problems of enabling computers to respond to ordinary language are much more difficult than the optimists in the computer industry once supposed. Computers can only converse intelligently on an extremely limited and specific subject.

More fundamentally, Professor Weizenbaum has pointed out that computers could never fully grasp human language unless they could feel human emotions like love and fear.

Borderland

However this philosophical borderland between mind and matter is not especially important to the commercial world. It has become more interested in the way artificial intelligence can tackle highly complex but nevertheless limited practical tasks.

An important example is the development at Stanford of computer systems which will simulate the thought processes of professional experts. One such system called PROSPECTOR has been developed at

Stanford Research Institute International to help companies decide where to drill for oil or mineral deposits.

The programme works by first interviewing an expert to establish the tests which should be made, the deductions which should be drawn from them and the further investigations required. When the computer has remembered the methodology of the expert, it can give "consultations" to prospecting companies to advise where would be the most likely places to drill.

Mr. John Cashnick, one of the scientists working on the project, says that in tests so far the computer's predictions have proved remarkably accurate.

Similar "Expert Systems" have been successfully developed for medical diagnosis. A likely next step will be to make such systems generally available for consultations in the law, accountancy and other professional fields. Such systems will probably be used in conjunction with a "talking" machine.

If, as now seems very likely, artificially intelligent computers are to become commercially important, the question must be: "What is happening in the UK?" Professor Michie and several others in the field believe the answer is: "Not nearly enough."

Letters to the Editor

Imports may fall

From the Economic Adviser, Burg and Co.

Sir—Lex (July 5) has uncovered a further vital piece of the jigsaw in any comprehensive analysis of the effects of rising sterling and the UK overseas trade balance where he comments upon "forward cover."

We know from successive studies of trading invoices that overseas trade tends to be conducted in the currencies of the suppliers, ie UK exports are in sterling and imports are in foreign currencies. The point is that, all along, it has been UK importers who have been the major users of "forward cover" to protect their import costs from falling sterling. This policy gave overseas suppliers to the UK a heaven-sent opportunity to stockpile contracted goods in the UK as foreign car manufacturers can testify.

Both UK importers and their overseas suppliers will have to revise their importing and UK stockpiling activities with stronger sterling. For example, "spot" U.S. dollars, and I think, all other currencies are cheaper today than "forward" purchases made at the time import business was contracted. (Usually two months-eight months ago).

There is a distinct possibility that we are about to see a useful fall in UK imports and a recovery of market share by home manufacturers for a wide cross-section of goods. The "J curve" effect of devaluation would be then (except the metaphor), stood on its head. But we must look further into the future for a more stable overseas demand, policy changes and hence I must add my own support for the switch of taxation from income to sales in the Budget.

Put simply, I expect to see a fall in imports from recent currency and taxation policy changes. It may take a few months for the new import trends to become clear but they have coincided with the volume of imports statistics can be misleading in the short term where indices are derived from "spot" instead of "contracted" foreign exchange rates when sterling is on a rising trend. A. G. Hornsall, Burge and Co, 25 Worship Street, EC2.

MacMarkets merger

From Mr. A. Hill

Sir—In your report of plans for the merger of MacMarkets with International Stores ("MacMarkets deal threatens jobs," July 5), you have, perhaps unwittingly, given the impression that MacMarkets was in trouble with management problems and barely profitable. Indeed, you speak of both companies having gone through similar management changes in the past year. As far as MacMarkets is concerned, the only senior management change made at the end of last year was brought about by the retirement of Mr. G. D. S. Black, who had been chairman for the past 20 years. He was succeeded by Mr. H. F. Thornburn, the retail director, who has also been with the company for many years.

In fact, MacMarkets has grown into a very efficient operation, albeit relatively small. Its managers have shown considerable capabilities and, despite heavy competition in the High Street, MacMarkets has become steadily more profitable.

If these two points lead to the question, why a merger at all, I would like to explain that it is simply because retailing is not a main-line activity for Unilever. It would have needed a high level of new investment in MacMarkets sites over the next few years to improve, or even maintain, the present position. This could only command a low priority in Unilever's total investment strategy in relation to its main operations. Thus our thinking was that the merger plan would provide management and staff not only with a low level of redundancy but additionally a very good opportunity of future job security and career development. A. H. C. Hill, Unilever, Unilever House, PO Box 68, EC4.

Metric pound and inch

From the Managing Director, Quantum Science

Sir—The chairman of GKN Distributors asks (July 2) for legislation to accelerate metrication while at the same time producing evidence that half his customers do not want it. He does not mention what proportion of these people are still using imperial sizes because their goods are sold on the North American market. No amount of British legislation will change the demand for UNF and UNC threads in North America. Mr. Grubb will be faced with the choice which he has now of either satisfying this market or denying his company the profits from it.

So far as one can see from publicity, the Metrication Board has given no thought to the metric inch and the metric pound. When Britain goes metric, pipe threads throughout the world will be measured in inches. The North Americans will use the national pipe thread and the rest of the world British Standard pipe thread. If one looks at the radiator valve in an overseas hotel room, one will see something like a stamped into the metal. This means 1 in British Standard pipe thread. If we drop the inch, we will be the only metric country which does not use inches.

In common usage, it is doubtful whether the word inch will disappear. A French steel erector will still call out: "un pouce-vers mol—an inch my way." In so many ways, an inch is a much more useful dimension than a centimetre.

In the same way, throughout Europe, housewives will shop in pounds—the livre of France, the pond in Holland, and the pfund in Germany, etc. The word kilo is used only to describe an even number of pounds. In a provincial market, a French housewife will ask for "trois livres de pommes—3 lbs of apples." This is 14 kg and about 10 per cent more of apples, three English pounds of apples. Again in France, game fish are always weighed in pounds, even if they amount to an even

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earning £3,500 pa is not likely to be attracted to London for an additional £2,000 a year when he realises that the £5,000 or £6,000 equity he has in his comfortable detached home in Northampton will only provide a deposit on a flat or terraced accommodation when he moves to the capital.

The cost of housing (even more than crippling computer fares) is what deters skilled and professional people from accepting marginally higher paid appointments in or near London. There are scores of case histories where carpenters, mechanics, school-teachers, young civil servants and middle management have declined the opportunity of taking up higher paid posts in London because of the exorbitant cost of housing. George Bristow, Home Relocation, 21 Soho Square, W1.

Loss making in steel

From Mr. D. Green

Sir—Roy Hodson's comment (July 4) on the dismal figures from British Steel—and on the substantial contribution of the Welsh Division to the losses in particular—deserves one postscript on relative as opposed to absolute losses. If one divides the divisional losses by the numbers of employees one has a rather different league table:

Tubes division—	£774 profit per employee
Sheffield—	£738 loss per employee
Scunthorpe—	£1,411 loss per employee
Wales—	£1,995 loss per employee
Teesside—	£3,231 loss per employee
Scotland—	£7,155 loss per employee

Assuming that British Steel adopts fairly standard manning criteria—without denying that its whole undertaking needs attention—it would seem that a rather different emphasis is required to that afforded by Mr. Hodson. David Green, Rhyl yr Harding, Castle Morris, Near Haverfordwest.

A near-perfect money market

From Mr. K. Bishop

Sir—The Government has decided that market forces should be allowed to operate freely in the present petrol shortage. The Government has equally decided in the past to persuade the building societies to go against the current of the present money market.

There is little justification for this inconsistency. Although higher interest rates will penalise present mortgagees, the lack of funds will mean fewer mortgages granted to first home buyers. Our building societies have a fine record of service rendered to the community and a fine record of integrity and expertise. The Government needs to think very seriously before upsetting the delicate balance of what has always been a near "perfect" money market; a market in which the vast majority have an interest, either as investors or borrowers. K. A. Bishop, 24, Petergate, SW11.

Today's Events

GENERAL: Transport and General Workers Union conference opens, Scarborough (until July 13). International Whaling Commission 31st annual session opens, London (until July 13). Mr. William Whitelaw, Home Secretary; Sir David McNea, Metropolitan Police Commissioner; and Mr. Patrick Jenkin, Social Services Secretary, speak at Department of Health conference on intermediate treatment for young people, Sheffield (until July 11). Financial Times/City University two-week course opens on financial management for the

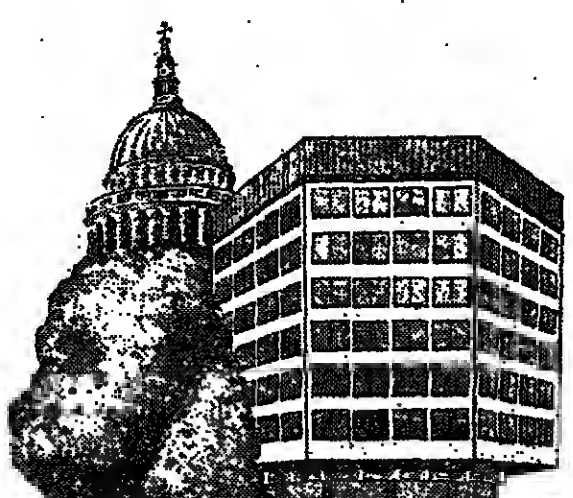
Today's Events

non-financial executive, London. Greater London Council committee discusses experiments to save energy on the Underground. Investigation opens into loss of the trawler Boston Sea Ranger off Cornwall (December, 1977), Great Yarmouth. Overseas: Central banks governors meet in Basle. U.S. Senate discusses ratification of UK-U.S. double tax agreement. Mr. Byron Theodoropoulos, Greek Foreign Ministry secretary general, and Mr. Osdemir Yigit,

Today's Events

Turkish Foreign Ministry, discuss control of the Aegean, Athens (until July 11). Mrs. Indira Gandhi, former Indian Prime Minister, appears before special court charged with false prosecution of Government officials, New Delhi. PARLIAMENTARY BUSINESS: House of Commons: Committee stage of Finance Bill, Motion on Customs Duty (Personal Reliefs) Order. House of Lords: Northern Ireland Act (Interim Period Extension) Order 1979. Northern

Ireland (Emergency Provisions) Act 1975 (Continuance) Order 1979. St. Vincent Termination of Association Order 1979. Britain's contribution to EEC Budget. OFFICIAL STATISTICS: Department of Industry publishes wholesale price index numbers (June—provisional). COMPANY RESULTS: Final dividends: Carolo Engineering Group; Graig Shipping Company; Marler Estates; May and Hassell; Second Great Northern Investment Trust; Warner Holidays. COMPANY MEETINGS: See Financial Diary on page 18.



Bank of Boston House, 5 Cheapside, E.C.2.

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UK COMPANY NEWS

Intl. Timber continues with cautious optimism

FOR THE first part of the current year at least, the continued rise in timber prices will be beneficial to International Timber Corporation.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are in arrears or final and the sub-divisions shown below are based mainly on last year's meetings.

Table with columns for company name, date, and location. Includes companies like Jacobs (John I.), Marzouk (Gerald), and others.

FT Share Information

The following securities have been added to the Share Information Service appearing in the Financial Times.

ation Service appearing in the Financial Times: Jostens Inc. (Section: Overseas-New York).

Rotaprint seeking new money

ADDITIONAL working capital is required at Rotaprint and the Board is studying various prospects for the introduction of new funds on favourable terms.

The aim of the Board in introducing new capital will be to enable new products to be fully exploited and overall level of borrowings to be reduced, the chairman says.

Rotaprint is a co-defendant in a claim for damages of some £5m, started by the joint receivers and Judicial Administrator of S. A. R. L. Guyot Fourreault.

Chloride expects growth despite adverse market

THE trading environment for the Chloride Group is expected to be tough this year with over-capacity and severe price competition in many of its markets.

The general world economy is also expected to remain sluggish with low forecast growth rates in Europe and a slowdown in the U.S. economy.

Despite these unfavourable external factors, the chairman expects the group to continue to achieve growth in both sales and profit.

after adjustments for depreciation, £3.4m, cost of sales, £18.5m and gearing, £5.7m.

Chloride Europe showed an improved profit while Chloride Overseas had a generally satisfactory year with an improved performance in Australia.

Referring to the group's use of lead and its possible effects on health, the chairman says that the main problem is emission from smelter chimneys inside groups smelting plants and dust at ground level, both within and outside plants.

Directors have just commissioned at Abbey Wood in London, the most advanced environmental smelter control equipment in the world at a cost of £500,000, which represents half the cost of a total modernisation programme on this site.

Additionally, of the total of £20.5m spent on new plant and equipment throughout the group during the year, £5.4m was for improved environmental and amenity purposes.

Sir Geoffrey is retiring after the annual meeting and will be succeeded as chairman by Sir Alexander Pilkington.

BIDS AND DEALS Simon Eng. in deal for plant hire assets

Simon Engineering has agreed to acquire the assets of Trinity Plant Hire from the Receiver of JCBG for £230,000.

Trinity operates a plant hire business from Gillingham, near Oxford, with regional depots at and near Buntingford, near Lichfield.

In August last year Simon bought Northern Engineering's 50 per cent shareholding in Cheadle Plant Hire with the declared intention of expanding its plant hire business.

Bill Samuel Group—Viscount Bessard's beneficial interest has been reduced to 1,536,002 by sale of 174,549 shares.

London Midland Industrial Trust—Trust now holds 579,597 ordinary shares (6 per cent).

London and Liverpool Trust—Stroller Securities has bought an additional 201,895 shares bringing their holding to 245,556 shares.

Lindustries tackling loss makers

STRENUOUS EFFORTS are being made to bring loss-making divisions of Lindustries back into profit, says Mr. W. E. Luke, chairman of Lindustries, in his annual statement.

He adds that last year the substantial losses suffered by Cowlishaw Walker and Delaney Galloway Dynamics discounted the excellent performance of the other engineering companies.

fund was fully invested over the period and its value at the end rose to £5.6m. The Gilt Edged Fund, however, showed a fall of 4.4 per cent in unit price and its value remained unchanged at £3.7m.

SHARE STAKES

Feeder Agricultural Industries—J. R. Williams, director, sold 30,000 shares and his wife has sold 10,000 shares.

NCNR turns in £542,000

After eliminating income and expenditure relating to the assets used in November, 1977, pre-tax profit of New Court Natural Resources, which operates oilfield services and proven oil and gas properties in the U.S., rose from £201,000 to £542,000 in the year ended March 31, 1978.

Baraora off to a slow start

The current season got off to a dry and slow start on the estates of Baraora Tea Holdings.

PGA fund over £20m

The report to policyholders from Property Growth Assurance, a member of the Phoenix Assurance Group, for 1978 shows that the Agricultural Fund had a successful nine months to the end of December with the unit price rising by 13.6 per cent.

Caffyns starts well

The current year has started well at Caffyns, motor dealer and engineer, with increased turnover for April and May compared with last year.

INTERNATIONAL TIMBER: The year starts well

Extracts from the Annual Statement by the Chairman, Mr. R.E. Groves.

Results

The outstanding event for the Group during the year was the acquisition of Bambergers Ltd. and plans for full integration were largely completed by the financial year end.

During the year under review world timber prices moved up and demand was somewhat better than in 1977/78. The final quarter of the financial year was most disappointing.

With the inclusion of the second half year of Bambergers the Profit available after Tax for dividend is £4,232,000.

Your Directors are recommending that the total dividend be increased by the permitted maximum to 8.0865p per Ordinary Stock Unit.

International Timber and its subsidiaries are engaged principally in the production, importation and distribution of wood and wood panel products.

Copies of the Annual Report for the year ended 31st March 1979, containing the Chairman's Statement in full, are obtainable from the Secretary, International Timber Corporation Limited, Carpenters Road, London E15 2DY.

ART GALLERIES

- AGNEW GALLERY, 43 Old Bond St. W.1. 01-429 0176. Exhibition of OLD MASTER PAINTINGS. Unit 1, 1st floor, Mon-Fri, 9.30-5.30, Thurs, 9.30-5.30, Sat, 10.15-12.15.

CONFERENCE HOTELS

- BOURNEMOUTH MOAT HOUSE For your next meeting we have conference rooms for 10-300 people (vegetarian and special diets catered for). 127 bedrooms. Spang facilities. Enquiries: Mr. Alfred Stockton, Manager, Bournemouth Moat House, Keyhaven Rd., Bournemouth BH3 3QJ. Tel: 0202 232244/232311.

EUROBONDS

The Association of International Bond Dealers Quotations and Yields appears monthly in the Financial Times.

WORLDWIDE FUND LIMITED

A commodity futures trading fund. Net Asset Value per £1 share as at 29th June, 1979, \$13.16.

PGA fund over £20m

The report to policyholders from Property Growth Assurance, a member of the Phoenix Assurance Group, for 1978 shows that the Agricultural Fund had a successful nine months to the end of December with the unit price rising by 13.6 per cent.

Caffyns starts well

The current year has started well at Caffyns, motor dealer and engineer, with increased turnover for April and May compared with last year.

BfG Finance Company B.V.

U.S. \$100,000,000 Floating Rate Notes 1983 Extensible at the Noteholder's Option to 1994

Notice is hereby given pursuant to the Terms and Conditions of the Notes that for the six months from 10th July, 1979 to 10th January, 1980 - the Notes will carry an interest rate of 11% per annum.

Agant Bank: European Banking Company Limited 9th July, 1979

LOCAL AUTHORITY BOND TABLE

Table with columns: Authority (telephone number in parentheses), Annual Interest, Life gross pay-interest, Minimum sum, Life bond. Includes Redhridge (01-478 3020) and Wrekin (0952 505051).

FINANCE FOR INDUSTRY TERM DEPOSITS

Deposits of £1,000-£50,000 accepted for fixed terms of 3-10 years. Interest paid gross, half-yearly. Rates for deposits received not later than 20.7.79.

NCNR turns in £542,000

After eliminating income and expenditure relating to the assets used in November, 1977, pre-tax profit of New Court Natural Resources, which operates oilfield services and proven oil and gas properties in the U.S., rose from £201,000 to £542,000 in the year ended March 31, 1978.

Caffyns starts well

The current year has started well at Caffyns, motor dealer and engineer, with increased turnover for April and May compared with last year.

BfG Finance Company B.V.

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FINANCE FOR INDUSTRY TERM DEPOSITS

Deposits of £1,000-£50,000 accepted for fixed terms of 3-10 years. Interest paid gross, half-yearly. Rates for deposits received not later than 20.7.79.

This advertisement is placed by N. M. Rothschild & Sons Limited on behalf of:

AURORA HOLDINGS LIMITED To the Ordinary Shareholders of EDGAR ALLEN, BALFOUR Limited

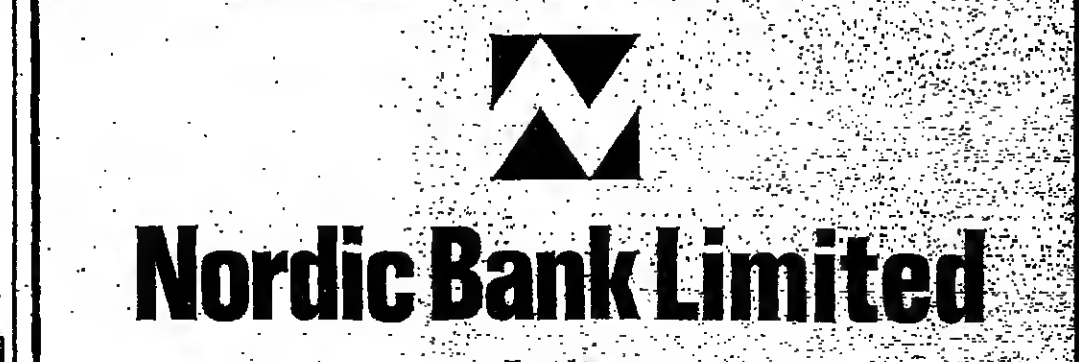
A further circular containing a letter from the Chairman of Aurora was dispatched to EAB shareholders on Thursday 5th July.

- You are reminded that:
★ Acceptances of Aurora's Offer should be received by 3.00 p.m. on Wednesday, 11th July, 1979. THE OFFER WILL NOT BE INCREASED.
★ The Cash Offer will not be open for acceptance after 3.00 p.m. on Wednesday, 11th July, 1979.
★ The Cash Offer is equivalent to 69.55p for each EAB ordinary share and represents a price earnings ratio 19.5 times forecast profit of EAB after applying a full tax charge.
★ The Share Offer provides an increase in dividend income of 174 per cent.

The Board of Aurora remains convinced of the advantages of the offer to both EAB and Aurora and, accordingly, you are strongly recommended to accept the offer.

The Board of Aurora Holdings Limited has taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. All the Directors of Aurora Holdings jointly and severally accept responsibility accordingly.

New Issue All these bonds having been sold, this advertisement appears as a matter of record only.



Nordic Bank Limited London

Swiss Francs 45,000,000 5% Swiss Franc Bonds of 1979 due 1989

- Nordfinanz-Bank Zürich Kredietbank (Suisse) S.A.
Clariden Bank Lloyds Bank International Ltd
ARMAND VON ERNST & CIE AG
BANCO DI ROMA PER LA SVIZZERA
BANK UND FINANZ-INSTITUT AG
BANQUE DE L'INDOCHINE ET DE SUEZ, SUCCURSALE DE LAUSANNE
CAISSE D'EPARGNE DU VALAIS
CIAL, CREDIT INDUSTRIEL
D'ALSACE ET DE LORRAINE
FUJI BANK (SCHWEIZ) AG
GEPWERRERBANK BADEN
HYPERBANK-UND HANDELSBANK WINTERTHUR
MAERKI, BAUMANN & CO. AG
MORGAN GRENFELL (SWITZERLAND) S.A.
SPARKASSE SCHWYZ



CAB ready to pronounce on National Airlines bids

By JOHN WYLES IN NEW YORK

THE U.S. Civil Aeronautics Board will make its long-awaited decision tomorrow on whether National Airlines should remain independent as the country's 11th largest carrier or whether it should be allowed to proceed.

Israeli bank sale approved by Knesset

By L. Daniel in Tel Aviv

THE SALE of the Israeli Government-owned Shipping Bank to Mr. Saul Eisenberg has been approved by the Knesset (Parliament) finance committee.

Earnings rise at Sanyo outpaces sales growth

TOKYO—Sanyo Electric Company, one of the major integrated manufacturers of electric appliances in Japan, announced a 15.3 per cent rise in net profit in the half-year ended May 20.

Sales totalled ¥271.6bn, a 5.4 per cent increase from ¥257.6bn. Sanyo's earnings per share went up to ¥8.71 from ¥7.90 in the period.

Hopes of continued profits at A & P

CHARLOTTE—Great Atlantic and Pacific Tea expects to be profitable again during the current second quarter and the third quarter of this year.

For the first quarter ended May 26, A & P reported net earnings of 19 cents a share on sales of \$1.06bn compared with a loss of 40 cents a share on sales of \$1.51bn in the comparable period a year ago.

Asbestos hearings extended

By Robert Gibbens in Montreal

THE QUEBEC Superior Court has extended until today hearings on Asbestos Corporation's request for an interlocutory injunction preventing the Quebec Government from taking any action against its Quebec-based assets.

For the convenience of readers the dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table.

Table with columns: Company Name, Dividend Type, Date, Amount, Yield, etc.

EQUITIES table with columns: Issue Price, Dividend, Yield, etc.

FIXED INTEREST STOCKS table with columns: Issue Price, Dividend, Yield, etc.

"RIGHTS" OFFERS table with columns: Issue Price, Dividend, Yield, etc.

BASE LENDING RATES

Table listing various banks and their base lending rates.

ALLEN HARVEY & ROSS INVESTMENT MANAGEMENT LTD. table with columns: Index Name, Value, etc.

INSURANCE BASE RATES table with columns: Insurance Type, Rate, etc.

CURRENCIES, MONEY and GOLD

European rates' upward spiral

Interest rates were climbing steadily last week in Europe, as one country after another increased various rates, to create something of a snowball effect.

sort of realignment would seem to be the obvious answer, although the effects of such a move on the already complex mechanics of the EMS would be unpleasant to contemplate.

THE DOLLAR SPOT AND FORWARD

Table showing dollar spot and forward rates for various countries.

THE POUND SPOT AND FORWARD

Table showing pound spot and forward rates for various countries.

EXCHANGE CROSS RATES

Table showing exchange cross rates between various currencies.

OTHER MARKETS

Table showing other market data for various commodities and currencies.

LONDON MONEY RATES

Table showing London money rates for various terms and currencies.

MONEY RATES

Table showing money rates for various currencies and terms.

Advertisement for UDRUZENA BEDGRADSKA BANKA, BEDGRAD, featuring a large loan offer of US \$305,000,000 and listing various bank services and branches.

INSURANCE Why change is due in knock-for-knock

BY OUR INSURANCE CORRESPONDENT

A FORTNIGHT ago I mentioned the statutory alternative to purchase of compulsory motor injury liability insurance...

Having explained that this sum was fixed first in 1930, and pointed to the recent court awards for road traffic accidents...

I had no particular fleet operator in mind, but quite clearly my comments found someone, somewhere, with a grudge against the insurance market...

Mr. Benson was of course referring to motor-insurers' decision to reallocate the cost of fleet claims from January 1 next year...

WALL STREET

Table of Wall Street stock prices for July 6, 1979, listing various companies and their prices.

APPOINTMENTS Parker Knoll senior post

Mr. L. E. D. Baskerville has been appointed managing director of PARKER KNOLL FURNITURE...

Mr. Alan J. Harrison has been appointed manager and Mr. Saedollah Mohammadi has been appointed deputy manager of the London branch of BANK SANAYE IRAN.

Mr. W. G. Kneale has been made a non-executive director of THE ROYAL TRUST COMPANY OF CANADA.

Mr. Andrew Ronay has been appointed director of public relations of THE BRITISH ALUMINIUM COMPANY.

Mr. Maurice Holmes, head of BRITISH RAIL'S Liverpool SREOT division, has moved to southern region's Waterloo HQ.

Public Works Loan Board rates

Table showing Public Works Loan Board rates effective from July 7, 1979, for various loan maturities.

Indices WORLD STOCK MARKETS

NEW YORK - DOW JONES

Table of New York stock indices including Industrial, Transport, and Utilities.

Table of Standard and Poors indices for various sectors like Autos, Chemicals, and Electronics.

EUROPE

AMSTERDAM

Table of Amsterdam stock prices for various companies.

BRUSSELS/LUXEMBOURG

Table of Brussels/Luxembourg stock prices.

VIENNA

Table of Vienna stock prices.

CANADA

Table of Canadian stock prices.

MILAN

Table of Milan stock prices.

OSLO

Table of Oslo stock prices.

PARIS

Table of Paris stock prices.

NYSE ALL COMMON

Table of NYSE All Common stock prices.

MONTREAL

Table of Montreal stock prices.

TORONTO Composite

Table of Toronto Composite stock prices.

JOHANNESBURG

Table of Johannesburg stock prices.

FRIDAYS ACTIVE STOCKS

Table of Friday active stocks.

AMSTERDAM

Table of Amsterdam stock prices.

BRUSSELS/LUXEMBOURG

Table of Brussels/Luxembourg stock prices.

VIENNA

Table of Vienna stock prices.

CANADA

Table of Canadian stock prices.

MILAN

Table of Milan stock prices.

OSLO

Table of Oslo stock prices.

PARIS

Table of Paris stock prices.

STOCKHOLM

Table of Stockholm stock prices.

SWITZERLAND

Table of Swiss stock prices.

AUSTRALIA

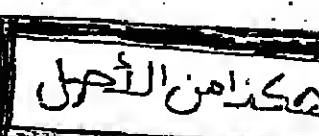
Table of Australian stock prices.

JOHANNESBURG

Table of Johannesburg stock prices.

MINNESOTA

Table of Minnesota stock prices.



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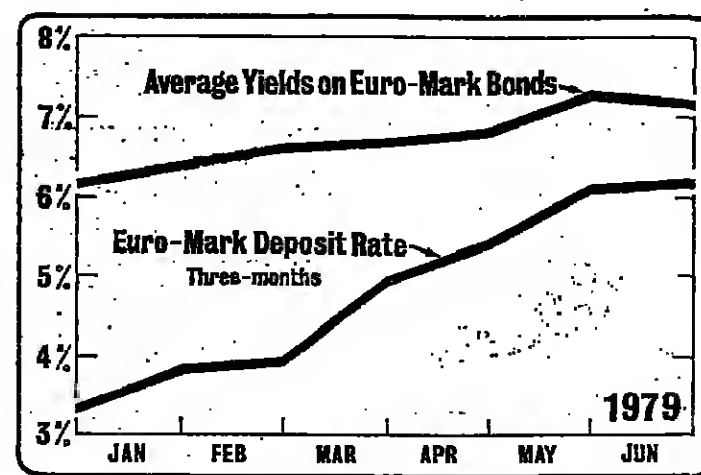
INTERNATIONAL BONDS

BY FRANCIS GHILÈS

Tender feelings for the EIB

IN A major development in Eurobond market practices, the European Investment Bank last Wednesday invited 30 international banks to make competitive bids for a public Eurobond issue, the amount of which will be \$100m or \$150m, with a coupon of 9.70 per cent and a maturity of 10 years.

Banks can bid for a maximum of \$100m or \$150m. The final size of the issue will be decided by the EIB after receipt of all the bids.



Those who welcome the idea of a tender system were also wondering why the EIB had announced it wished to give publicity through the publication of tombstones, to the amounts allotted to the different banks. They said that such action would only attract publicity seekers and in no way contribute to the success or failure of the operation.

The \$50m issue for Dome Petroleum was priced at 98 1/2 to yield 10.20 per cent instead of the indicated 99 1/2 but fell to 96 1/2 as soon as it started trading. Some analysts believe that institutions are all set to move into the market and buy recent good quality issues which are trading at steep discounts. They argue that with the U.S. recession now clearly on the horizon, a rally in the bond market is bound to take place soon. Others are more pessimistic.

In a typically forthright comment in a note to institutional investors, Ross and Partners write that because the impact of this year's oil price rises on the U.S. will be greater than in 1974 and adaptation to them more difficult, the dollar will tumble and to stop it fall the U.S. authorities will have to start an "interest rate war" with other countries in order to support their currency.

A tender system has long existed in the US domestic bond market but has never developed on this side of the Atlantic. Reaction among major international banks has been mixed, if not confused. Some of the banks which have traditionally bid issues for the EIB appear far more happy.

The initiative taken by the EIB met with strong criticism, even from those U.S. banks which are keen to encourage the introduction of a tender system into the Eurobond market. These critics pointed out that they would rather have seen the EIB stick more closely to the rules of the game as it is played in New York.

The borrower does not insist that a coupon be set at the time of the launching of the issue, but leaves it to the end of the selling period. The confusion has been all the greater as there are not well established syndicates of banks in the Eurobond market, as in the case in New York. Were for a given tranche or a number of tranches, at different prices.

UK EXCHANGE CONTROLS

Removing a psychological barrier

BRITAIN'S INSTITUTIONAL investors should shortly be given much more freedom to deploy their funds overseas. The Eurobond markets will be clearly aiming to court the influential fund managers in the City and Edinburgh if the current stock market speculation proves correct.

UK institutions show a wide divergence of opinions over how they will adjust their investment activities to a free environment. In the majority of cases, the Eurobond markets should not count on being the major beneficiaries of such liberalisation.

You've got to remember that the major gains in overseas investment in recent years have come from favourable currency movements, rather than income or choice of the right individual security. It notes that the fund views "hard currency" outlets, such as the Deutsche Mark and yen, as the most attractive bet. Another oil company fund, which stands at about £600m, is trading much more warily. Ten per cent of its funds are already abroad, and it indicates that matching problems could arise if this ratio was raised since all its liabilities are in sterling.

BY JOHN EVANS

CURRENT INTERNATIONAL BOND ISSUES

Table with columns: Borrowers, m. Amount, Maturity, Av. life years, Coupon %, Price, Lead manager, Offer yield %.

U.S. BONDS

BY JOHN WYLES

Waiting on the Fed

ACCORDING TO some participants, it is stretching the truth somewhat to imply that there was a New York bond market last week. An extremely thin issue calendar gave investors very little new to bite on, while an extended break from July 4 left many Wall Street trading departments operating on skeleton staffs.

The 9 1/2 per cent Treasury bond of 2009 finished unchanged on the day at around 103 1/2 bid, a rise of about 1/2 on the week. Generally, corporates made some gains over the four trading days: Ford Motor Credit's 0.45 ten-year notes, rated triple A, rose by 1/2 to reduce their yield to 9.31, while Borden Inc's double A 9 1/2 sinking fund issue due in 2009 gained about 1/2.

In its latest survey of the credit markets, Morgan Guaranty has pointed out that the rally in the bond markets since early May has coincided with a softening in overall credit demand, although the picture varies somewhat from sector to sector. Corporations, says the New York bank, have been borrowing at a record rate because of their inability to finance internally capital expenditures and inventory additions.

FT INTERNATIONAL BOND SERVICE

Large table with multiple columns: U.S. DOLLAR STRAIGHTS, YEN STRAIGHTS, OTHER STRAIGHTS, FLOATING RATE NOTES, CONVERTIBLE BONDS, SWISS FRANCES, D-MARKS, KUWAITI DINARS, U.S. BONDS.

Advertisement for Nippon Densetsu Kogyo Co., Ltd. featuring 4,000,000 Shares of Common Stock, evidence by European Depositary Receipts, and a list of international financial institutions.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Table listing UK trade fairs and exhibitions with columns for Date, Title, and Venue.

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Table listing overseas trade fairs and exhibitions with columns for Date, Title, and Venue.

BUSINESS AND MANAGEMENT CONFERENCES

Table listing business and management conferences with columns for Date, Title, and Venue.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week.

Table of financial diary entries including company meetings, board meetings, and dividend payments.

Tougher regime for detention centres under consideration

BY PAUL TAYLOR. THE GOVERNMENT is considering introducing a tougher regime into a limited number of detention centres in advance of possible new legislation which would allow "very short" deterrent custodial sentences for young offenders.

This week in Parliament

TODAY. COMMONS—Finance Bill, common law plans to reverse the UK's economic decline. Criminal Justice (Amendment) Bill.

Advertisement for Local Authority Bonds, offering details on investment and interest.

Advertisement for Australian Shipping Commission, detailing bond holders and interest rates.

Advertisement for The Army Benevolent Fund, featuring a photo of a soldier and text about supporting soldiers and their families.

Large advertisement for Regie Nationale des Usines Renault, including a list of bond numbers and terms of the loan.

Advertisement for Carter Hawley Hale Overseas Finance N.V., offering \$50,000,000 in 9 3/4% guaranteed notes due 1986.

Advertisement for Warner-Lambert International, N.V., offering \$100,000,000 in 9% guaranteed notes due 1984.

Handwritten Arabic text at the bottom of the page.

AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Trust, Friends Provident Unit Trust, and National and Commercial, including their respective managers and details.

Table listing insurance and property bonds, including Abbey Life Assurance Co. Ltd., Friends Provident Unit Trust, and National and Commercial, with details on their products and terms.

Table listing various investment funds and trusts, including Friends Provident Unit Trust, National and Commercial, and others, with details on their performance and terms.

Table listing international and offshore funds, including Friends Provident Unit Trust, National and Commercial, and others, with details on their global investments and terms.

Table listing offshore and overseas funds, including Friends Provident Unit Trust, National and Commercial, and others, with details on their international investments and terms.

NOTES: Please refer to the notes on page 18 for details on the unit trusts and funds listed in this section.

NOTES: Please refer to the notes on page 18 for details on the insurance and property bonds listed in this section.

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NOTES: Please refer to the notes on page 18 for details on the international and offshore funds listed in this section.

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Vertical text on the left margin: 'LOCAL THORNTON BONDS' and 'LOCAL THORNTON BONDS'.

Handwritten signature: 'J.P. Wilson'.

Manchester Business School
Management Course

"...probably the
finest short course
in the world"

but were working on it

FT SHARE INFORMATION SERVICE

FOREIGN BONDS & RAILS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Antofagasta Rly.	30	170	170	170	170	170	170	170	170	170	170
Do. Sp. Pr.	20	170	170	170	170	170	170	170	170	170	170
Chilean Mined	20	170	170	170	170	170	170	170	170	170	170

BANKS & HP—Continued

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Hill Samuel	104	532	532	532	532	532	532	532	532	532	532
Do. Sp. Pr.	104	532	532	532	532	532	532	532	532	532	532
James Watson	104	532	532	532	532	532	532	532	532	532	532

CHEMICALS, PLASTICS—Cont.

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Cryolite	325	145	145	145	145	145	145	145	145	145	145
Do. Sp. Pr.	325	145	145	145	145	145	145	145	145	145	145
Imperial Chemical	325	145	145	145	145	145	145	145	145	145	145

ENGINEERING—Continued

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Allen W. Jones	104	532	532	532	532	532	532	532	532	532	532
Do. Sp. Pr.	104	532	532	532	532	532	532	532	532	532	532
James Watson	104	532	532	532	532	532	532	532	532	532	532

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Treasury 30c 79/2	97 1/2	82	82	82	82	82	82	82	82	82	82
Electric 40c 79/2	97 1/2	82	82	82	82	82	82	82	82	82	82
Do. Sp. Pr.	97 1/2	82	82	82	82	82	82	82	82	82	82

Five to Fifteen Years

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Treasury 12c 1982	100 1/2	121	121	121	121	121	121	121	121	121	121
Electric 12c 1982	100 1/2	121	121	121	121	121	121	121	121	121	121
Do. Sp. Pr.	100 1/2	121	121	121	121	121	121	121	121	121	121

Over Fifteen Years

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Treasury 22c 1994	105 1/2	131	131	131	131	131	131	131	131	131	131
Electric 22c 1994	105 1/2	131	131	131	131	131	131	131	131	131	131
Do. Sp. Pr.	105 1/2	131	131	131	131	131	131	131	131	131	131

Undated

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Consolidated	35 1/2	24	24	24	24	24	24	24	24	24	24
Do. Sp. Pr.	35 1/2	24	24	24	24	24	24	24	24	24	24
Consolidated	35 1/2	24	24	24	24	24	24	24	24	24	24

AMERICANS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
AMP Sp. Pr.	13 1/2	82	82	82	82	82	82	82	82	82	82
Do. Sp. Pr.	13 1/2	82	82	82	82	82	82	82	82	82	82
AMP Sp. Pr.	13 1/2	82	82	82	82	82	82	82	82	82	82

BEERS, WINES AND SPIRITS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Beck's	90	431	431	431	431	431	431	431	431	431	431
Do. Sp. Pr.	90	431	431	431	431	431	431	431	431	431	431
Beck's	90	431	431	431	431	431	431	431	431	431	431

BUILDING INDUSTRY, TIMBER AND ROADS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Amberley Const.	124	514	514	514	514	514	514	514	514	514	514
Do. Sp. Pr.	124	514	514	514	514	514	514	514	514	514	514
Amberley Const.	124	514	514	514	514	514	514	514	514	514	514

DRAPERY AND STORES

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Debenhams	48	224	224	224	224	224	224	224	224	224	224
Do. Sp. Pr.	48	224	224	224	224	224	224	224	224	224	224
Debenhams	48	224	224	224	224	224	224	224	224	224	224

HOTELS AND CATERERS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Beaumont	213 1/2	78	78	78	78	78	78	78	78	78	78
Do. Sp. Pr.	213 1/2	78	78	78	78	78	78	78	78	78	78
Beaumont	213 1/2	78	78	78	78	78	78	78	78	78	78

FOOD, GROCERIES—Cont.

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Clifford Davies	77	64	64	64	64	64	64	64	64	64	64
Do. Sp. Pr.	77	64	64	64	64	64	64	64	64	64	64
Clifford Davies	77	64	64	64	64	64	64	64	64	64	64

INDUSTRIALS (Misc.)

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Octagon	122	122	122	122	122	122	122	122	122	122	122
Do. Sp. Pr.	122	122	122	122	122	122	122	122	122	122	122
Octagon	122	122	122	122	122	122	122	122	122	122	122

INTERNATIONAL BOND

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
15F 15A Sp. Pr.	84	131	131	131	131	131	131	131	131	131	131
Do. Sp. Pr.	84	131	131	131	131	131	131	131	131	131	131
15F 15A Sp. Pr.	84	131	131	131	131	131	131	131	131	131	131

CORPORATION LOANS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
Do. Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21

LOANS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
11F 11A Sp. Pr.	64 1/2	14	14	14	14	14	14	14	14	14	14
Do. Sp. Pr.	64 1/2	14	14	14	14	14	14	14	14	14	14
11F 11A Sp. Pr.	64 1/2	14	14	14	14	14	14	14	14	14	14

CANADIANS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
Do. Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21

BANKS AND FINANCE

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
Do. Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21

AMERICAN BONDS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
Do. Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21

AMERICAN BONDS

Stock	Price	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
Do. Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21
11F 11A Sp. Pr.	93 1/2	21	21	21	21	21	21	21	21	21	21

AMERICAN BONDS

Stock	Price	1st	2nd	3rd	4th
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INDUSTRIALS—Continued

Table of industrial stocks including companies like British Petroleum, Shell, and ICI, with columns for price, change, and volume.

INSURANCE—Continued

Table of insurance stocks including companies like Royal Indemnity and Commercial Union Assurance.

PROPERTY—Continued

Table of property stocks including companies like British Land and Anglo-Continental.

INVESTMENT TRUSTS—Cont.

Table of investment trusts including companies like British Venture and Anglo-Continental.

FINANCE, LAND—Continued

Table of finance and land stocks including companies like Anglo-Continental and British Venture.

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MINES—Continued AUSTRALIAN

Table of Australian mining stocks including companies like BHP, Anglo-Australian, and Mount Isa Mines.

TINS

Table of tin stocks including companies like Anglo-Tin and Anglo-Tinners.

MISCELLANEOUS

Table of miscellaneous stocks including companies like Anglo-Continental and British Venture.

NOTES

Unless otherwise indicated, prices and market movements are in pence and denominated in pence. Estimated price/earnings ratios and covers are based on the latest available figures.

TEAS

Table of tea stocks including companies like Anglo-Continental and British Venture.

MINES CENTRAL RAND

Table of central rand mining stocks including companies like Anglo-Continental and British Venture.

EASTERN RAND

Table of eastern rand mining stocks including companies like Anglo-Continental and British Venture.

FAR WEST RAND

Table of far west rand mining stocks including companies like Anglo-Continental and British Venture.

REGIONAL MARKETS

Table of regional market data including various stock indices and prices.



Carter calls in U.S. business leaders to oil crisis talks

BY DAVID BUCHAN

PRESIDENT CARTER yesterday summoned top business leaders along with his energy advisers to his Camp David retreat. It was the third day of extraordinary consultations that may extend into mid-week, to plot new courses for the U.S. oil and economic policy whose impact will bear directly on Mr. Carter's political future.

Last week he abruptly cancelled a scheduled nationwide energy announcement, which he deemed insufficiently prepared to cross the political watersheds his Administration has now reached.

The political crisis, posed by the confused muddle in U.S. energy policy, has been underlined in a leaked memorandum to the President from his top domestic adviser, Mr. Stuart Eizenstat, comparing the damage to that done by previous Administrations by the Vietnam war.

"Nothing else has so frustrated, confused, angered the American people—so tarseted their distress at you

personally, as opposed to your advisers, or Congress, or outside interests," Mr. Eizenstat said in the memorandum about petrol shortages written at the end of June and since published by the Washington Post.

The magnitude of the crisis is reflected in the polls where, Mr. Eizenstat noted, the latest Harris survey "shows something never seen before—a Republican opponent, Ronald Reagan, leading you by several points."

The highly embarrassing leaking of this document is seen as symptomatic of the difficulty the Carter Administration has had in presenting a united front to the energy challenge.

Mr. Carter was nevertheless portrayed by White House officials as coolheaded, undismayed, painstaking efforts to build a public consensus behind new energy initiatives—meeting several state governors at Camp David on Friday and Saturday, black and Democratic Party officials on Saturday.

The outcome of the Camp

David deliberations—which Mr. Carter is likely to announce in a re-scheduled television address—will be eagerly awaited at home and abroad, where the U.S. commitment to keep its oil imports to 8.5m barrels a day up to 1985 is considered vital to lessen upward pressure on world oil prices.

Vice-President Walter Mondale partially lifted the veil of secrecy surrounding the Camp David weekend talks, saying that Mr. Carter was seeking consensus for a new standby rationing plan to replace the one voted down by Congress in May.

The long queues outside petrol stations in many parts of the U.S. since then are thought to have changed the mood in Congress, which is now expected to give the President such standby rationing priority, if he asks for it.

The Administration is also reported to have agreed to push development of synthetic fuels up to between one and two million barrels a day. There

would be strong support in Congress for such a move.

But there is apparently no agreement on the controversial proposal to scrap immediately Government controls on the price and allocation of domestic oil. This is favoured by Mr. James Schlesinger, the Energy Secretary, who has argued that price controls should be removed at once, instead of gradually over the next two years.

He has also criticised the present allocation system which his own energy department administrators—as putting "the gasoline where the cars are not."

But Mr. Carter's political advisers, including Mr. Eizenstat, regard a further boost in this way to oil prices as political suicide.

Mr. Schlesinger's influence inside the Administration has waned with the mounting public criticism of his handling of energy policy and of his failure to present a coherent picture to a confused Congress and public.

Callaghan moves to thwart NEC Left

By Richard Evans, Lobby Editor

INTENSIVE lobbying of the trade unions to secure a change in the Labour Party's National Executive Committee has been launched with the full backing of Mr. Callaghan and moderate members of the Shadow Cabinet.

The intention is to unseat at least two Left-wing members of the Executive to try to heal relations between the Parliamentary Party headed by Mr. Callaghan and the NEC, whose leading Left-winger is Mr. Anthony Wedgwood Benn.

But Mr. Callaghan and his colleagues admit that a similar strategy has been launched prior to the last two party conferences. It foundered because of the unwillingness of leading trade unions to switch their block votes, and because of the wheeler-dealing between unions for places on the NEC and the TUC General Council.

Some moderates are no more optimistic this time, but they hope that the growing bitterness of the split between Left and Right will scare the unions into a position on the grounds that continuing conflict could see Labour out of office for a decade.

Lobbying will continue through the summer union conferences and the TUC in the first week of September until the Labour Party conference in Brighton in October.

Dividend policy reconsidered

THE LEX COLUMN

The first days of freedom after years behind bars can be very confusing. After nearly seven years of non-stop status tory controls, company directors have got out of the habit of thinking seriously about dividend policy. Their main concern has been to pay the maximum allowable under the law and in some cases it seems as though dividends have come to be seen almost as a fixed charge rather than a reward for risk taking. Even when companies have had heavy moments of freedom—when making a rights issue or defending a takeover bid, for instance—the dividend decision has usually been more related to long-term tactics than to long-term strategy.

The controls have introduced serious distortions into the capital market. They made it possible for inefficient companies to raise equity capital in order to finance excessive dividend payments—in effect giving the shareholders their own money back after the tax man and inflation have taken out their bite.

Historic cost

However, the figure that really matters these days is the cost of the dividend in relation to current cost earnings. Phillips and Drew estimate that cover of 2.6 times on historic cost earnings would fall to 2.0 times on earnings calculated according to ED 24. And although there are no golden rules, that seems to be much too cautious a payout ratio for most UK companies to adopt.

Current cost earnings are a measure of what is left to a company after it has put enough aside to maintain the existing shape of the business in real terms. There are arguments about the proper definition of real maintenance in this context, but ED 24 is a reasonably conservative way of doing the figures since it does not take into account the full benefit of gearing on fixed assets. So in theory a company which had no prospects of achieving real growth ought at least to consider the possibility of paying out its current cost earnings in full. And a company which was making reasonable profits in a business which was actually contracting ought to pay out more than its current cost earnings. There is nothing sacred about size.

Company managers will find all sorts of excuses for being more conservative. They will argue that they need to retain earnings to finance future growth, and that they need to keep a safety margin so as to be able to maintain their dividend in bad years as well as good. But these claims cannot be taken too far, especially in a stagnant economy like that of the UK. Genuine growth companies can finance themselves with rights issues. Others may wish to build up retentions in order to finance diversification—but it is at least arguable that such moves are

more to gratify the immediate interests of shareholders than to share all they can get from the portfolio themselves, without having to pay the tax and the costs involved in outright sales.

Some elements of the margin is certainly worth the risk for the stock market's ruthless way of treating shares of companies that pay their payments. But insurance is expensive, provided that their policies clearly stated, companies are violently cynical about the risk of lowering their dividends in line with short-term earnings trends.

One year expressed by some companies in private is that the rapid cut-back in dividend payments could create a period of wage negotiations. Yet BP, for instance, has paid out that the "big increase" this year's payment will do more than take the growth dividends back into line with the growth in its earnings over the past decade. And it is dangerous to be too timid about the proper definition of real maintenance in this context, but ED 24 is a reasonably conservative way of doing the figures since it does not take into account the full benefit of gearing on fixed assets. So in theory a company which had no prospects of achieving real growth ought at least to consider the possibility of paying out its current cost earnings in full. And a company which was making reasonable profits in a business which was actually contracting ought to pay out more than its current cost earnings. There is nothing sacred about size.

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Hattersley warns Labour councils

BY DAVID CHURCHILL

MR. ROY HATTERSLEY, Shadow Environment Secretary, yesterday urged local authorities to "use the law at every level" to frustrate the Government's attempts to cut local government spending by £800m.

Mr. Hattersley, who was speaking at a London conference of local authority Labour groups, made it clear that outright confrontation of the Government's cuts would be a "tactical error."

He said that Labour coun-

cils which broke the law and became "another Clay Cross" would enable "our enemies to focus attention on the behaviour of one or two councillors and thus divert interest from cuts in services endured by millions of families."

However, he believed that councils could limit the Government's ability to dictate where the cuts should be made. "It is for each authority also to decide if it can in effect avoid any cuts in services at all," he said. "You must use the right that

the law provides to decide whether cuts or rate increases, or other sorts of financial arrangements, are the right answer for your own area."

He stressed that the Government did not have the power to take "punitive action" to drive back into line any council that attempted to protect services from the cuts and be promised that the Parliamentary Labour Party would fight "to prevent local authorities simply becoming the cyphers of central government."

Yesterday's meeting of delegates from over 60 local authority Labour groups unanimously agreed to campaign against the proposed cuts. The campaign would involve all Labour groups on councils as well as trade unions and Labour MPs.

Mr. Hattersley called on Labour councillors to expose the effects of the cuts by making "a precise and specific calculation of what the cuts will mean in their area—the teachers not recruited, parks left overgrown, roads not repaired and so on.

Decisions

Now that the end of statutory controls is only weeks away, directors have some tricky decisions to take at a time when, as GEC remarked plaintively last week, "appropriate standards of yield and cover have not yet been established." GEC's decision to limit its dividend increase to a level which left the payment covered more than five times by retained earnings was not universally popular—especially when contrasted with a statement shortly afterwards from BP which promised that its dividend this year would be more than doubled. So the quicker the appropriate yardsticks can be established, the better for everyone concerned.

Inflation has changed the ground rules considerably since the last period of dividend freedom. It has meant that figures for dividend cover based on historic cost profits have become increasingly overstated, and it has led to more company directors more cautious about the need for retentions. This, just as much as the existence of statutory controls, explains why the average level of dividend cover has risen steeply since the middle of the 1960s.

Stockbrokers Phillips and Drew have calculated that in

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Continued from Page 1

Imported cars market

In June the total was just under 20,000, although the Cortina remained its top seller. Fiests sales, which have been running at about 7,500 a month, were down to 5,800 in June.

BL, with Austin Morris division cars in free supply, took advantage of the boom in demand—the market being particularly buoyant even before pre-VAT-rise buying gave it another boost.

BL's market share moved up to nearly 21 per cent. It could have done better if problems with a new paint plant had not cut the availability of some Jaguar-Rover-Triumph models.

Among the traditional importers, Datsun led the way in June, but over the half-year Datsun has been overtaken by Renault of France, whose six-month sales were 5.49 per cent of the market, Datsun suffering with the other importers of Japanese cars from supply constraints, had 5.38 per cent.

At the same time last year Datsun had 6.56 per cent and Renault 4.18 per cent.

Sales of Japanese cars accounted for 10.9 per cent of the June total against 9.3 per cent in June 1978. For the six months to the Japanese market share was down from 11 per cent to 9.8 per cent.

The top 10 cars in June were: 1. Ford Cortina (19,801); 2. Ford Escort (15,208); 3. Austin Morris Mini (10,204); 4. Austin Allegro (9,836); 5. Morris Marina (7,491); 6. Ford Granada (6,162); 7. Ford Fiesta (5,874); 8. Ford Capri (5,713); 9. Vauxhall Chevette (4,955); 10. Vauxhall Cavalier (4,766).

Paper on bank accounting code may be published despite hitch

BY MICHAEL LAFFERTY, BANKING CORRESPONDENT

A CONTROVERSIAL discussion paper on international bank accounting practices may be published in spite of last-minute problems with central bankers.

But the paper, prepared by the International Accounting Standards Committee—the rule-making body on international company accounting matters, will not carry the same degree of support from the Basle Committee of Banking Supervisors as the accounting bodies had expected.

The committee, which includes supervisors from the Group of Ten central banks and Switzerland, and is chaired by Mr. Peter Cook from the Bank of England, will simply welcome the paper as a contribution to the debate on bank accounting.

The discussion paper, as drafted at present, described as being issued by IASC "with the support of the Committee on Banking Regulations and Supervisory Practices of the Group of Ten industrialised countries and Switzerland."

It has two parts: first, considering the need to harmonise bank financial reporting standards and second, guidelines for the development of disclosures in financial statements of banks.

The guidelines are prepared on the basis of what is believed to be the best practice capable of practical application by banks, aside from any constraints imposed on reporting by local law.

A section on undisclosed reserves states that "such reserves may result in opportunities to distort, in varying degrees, the reported earnings

of a bank and to cause uncertainty as to the full extent of shareholders' interests." As a result financial statements cannot present a true and fair view as to financial position or results.

Uncertainty about the future of the discussion paper, some of whose sentiments are said to be found particularly worrying by a number of EEC central banks, led the IASC to state:

"The IASC has not had any official response from the Group of Ten regarding its decision on the extent of support, if any, it will give to the IASC discussion paper on bank disclosures."

"It would be a disappointment to the Board of IASC if the Group of Ten should decline to lend its support to the paper, and what we would do in this case has not been decided."

Weather

UK TODAY

BRIGHT intervals. Rain in some parts.

London, S.E. and Cent. S. England, Anglia, Midlands, Channel.

Cloudy, bright intervals. Some rain later. Max. 20C (68F).

Lake District, Isle of Man, S. Cent. and E. Scotland, N. Ireland (66F).

Rest of England, Wales

Cloudy with some rain, becoming dry with sunny periods. Max. 19C (66F).

Rest of Scotland

Sunny intervals, showers. Max. 17C (63F).

Outlook: Dry, sunny periods.

Worldwide

WORLDWIDE

	Y'day	Today	Y'day	Today
	°C	°C	°C	°C
Algeria	29	28	17	16
Amman	17	17	17	17
Asmara	27	27	27	27
Bahrain	37	37	37	37
Beirut	27	27	27	27
Bombay	27	27	27	27
Buenos Aires	18	18	18	18
Calcutta	27	27	27	27
Cairo	27	27	27	27
Cardiff	17	17	17	17
Cebu	27	27	27	27
Colon	27	27	27	27
Dhaka	27	27	27	27
Dublin	17	17	17	17
Geneva	17	17	17	17
Hong Kong	27	27	27	27
London	17	17	17	17
Lyons	17	17	17	17
Manila	27	27	27	27
Medan	27	27	27	27
Meppen	17	17	17	17
Moscow	17	17	17	17
Mumbai	27	27	27	27
Nairobi	17	17	17	17
Paris	17	17	17	17
Rangoon	27	27	27	27
Rome	17	17	17	17
Singapore	27	27	27	27
Sofia	17	17	17	17
Taipei	27	27	27	27
Tokyo	27	27	27	27
Yokohama	27	27	27	27

Saudis confirm 'very exciting' oil find

BY JAMES BUCHAN IN JEDDAH

A SENIOR Saudi Arabian official has confirmed the discovery of a sizeable oilfield in Saudi's eastern province.

Dr. Abdul Hadi Taber, governor of the State petroleum organisation Petromin, said last night that the new field is in the northern Empty Quarter, the Kingdom's vast south eastern desert. In a zone called designated area two by Amoco, which lifts 97 per cent of Saudi

crude and is responsible for most exploration work.

"We have not yet confirmed the size, but we are very excited," Dr. Taber said. "The find was announced in an interview last week by the Saudi Oil Minister, Sheikh Ahmad Zaki Yamani, who referred to a 'very exciting and very big new find.'"

Diplomats in Jeddah suggested at the time that the quality as exciting in Saudi

terms, the field would have to represent additional capacity of 800,000 barrels a day. Dr. Taber hesitated to estimate the size of the field because drilling is still going on, but he said it is "definitely" under 700,000 barrels a day.

The find is over and above three fields mentioned in Aramco's annual report for 1978 which apparently added 3.1bn barrels to Saudi Arabia's proven reserves.

sumably on the ground that the corporation should not suffer unduly from a situation it did not consider its fault. But the company later reversed its position only to find that the Government was insisting on an 18-month moratorium, and the negotiations broke down.

GT and E says force majeure was applied to only one site. It also points out that it is owed \$12.4m in long delayed instalment payments and claims Iran had shown little active interest in settling the debt. The contract is well behind schedule, but this, the company says, is due to factors outside its control.

Most foreign companies facing the problem of non-payment by Iranian Government agencies are compelled to live with the problem by the need to limit their losses, and thus seek to complete their original contracts.

Major court battle over Iran's telephones

BY ANDREW WHITLEY IN TEHRAN

GENERAL Telephone and Electronics, the U.S. telecommunications group, and Iran's Government have embarked on what is likely to be a long and acrimonious dispute through the courts. At stake are the future of Iran's massive telephone expansion programme and the troubled political relationship with the United States.

At the weekend the American company, which serves 14.3m domestic and 2.1m international telephones, lodged an appeal against a restraining order from a Tehran court, on behalf of the Telecommunications Company of Iran (TCI), preventing GT and E from drawing on the balance of approximately \$100m in a line of credit set up to fund the contract for the manufacture, installation and maintenance of 950,000 telephone lines.

Work began on GT and E's

\$600m contract in the summer of 1975, and was due to be completed this year, though final contracts were not signed until December 1977.

The Iranian state agency now claims that having paid out \$400m only 3,000 telephone connections are installed, but GT and E say they have installed 125,000 lines and received \$180m.

Much of the dispute centres on legal distinctions between GT and E International and its local subsidiary GT and E Iran.

The initial writ served against GT and E claims breach of contract on the grounds that GT and E International shipped \$135m worth of equipment to GT and E Iran after the latter had declared force majeure last September, when the anti-Shah disturbances were building up, disrupting much site work.

Negotiations for an out-of-court settlement have continued up to the last moment, with mediation led by Dr. Ibrahim Yazdi, the Foreign Minister.

For the Iranian Foreign Ministry the GT and E dispute with TCI is a major test case in future commercial relations with the U.S. Dr. Yazdi is believed to be particularly anxious to secure a settlement because of growing fears within the provisional Government of a drift to the public sympathy towards the Left.

A short-lived accord was reached on Thursday evening for the shipment of equipment to Iran, allowing TCI a breathing space to sort out the confusion around its \$3bn programme.

Apparently the compromise was initially rejected by GT and E's headquarters, pro-

sumably on the ground that the corporation should not suffer unduly from a situation it did not consider its fault. But the company later reversed its position only to find that the Government was insisting on an 18-month moratorium, and the negotiations broke down.

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NOTICE

to Midland Bank customers and the public

While normal services will be maintained in its branches, Midland Bank Limited regrets that as a result of industrial action threatened within the Bank delays may occur in the collection of cheques and the handling of other items. The Bank cannot, therefore, undertake that the processing of work will take place within the normal periods.

Midland Bank Limited

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